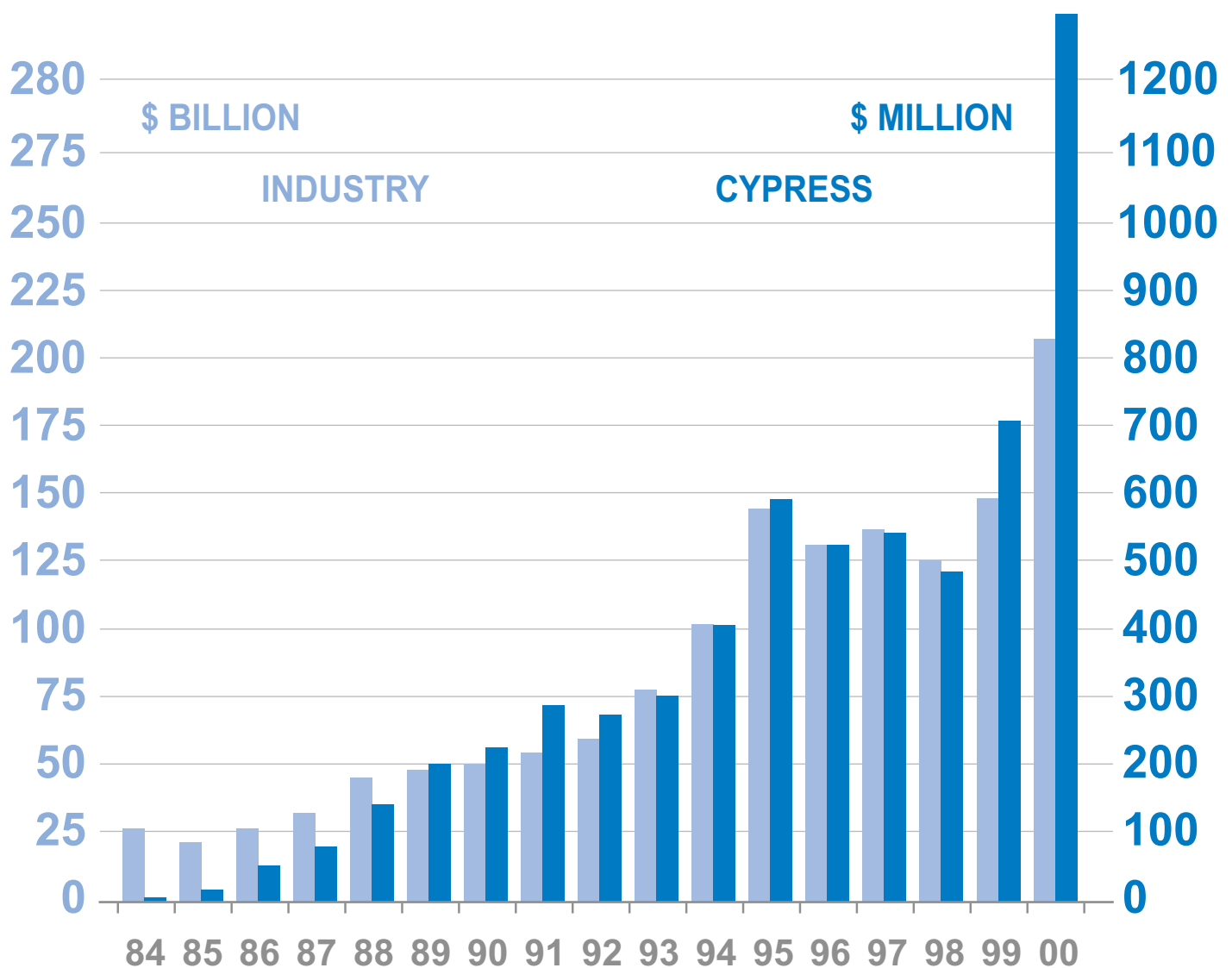


CYPRESS

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

"Every building at Cypress posts our mission statement, which calls for \$1 billion in sales and \$250 million in pre-tax profits. We plan to achieve those goals in the year 2000."

T.J. Rodgers, 1999 Annual Report



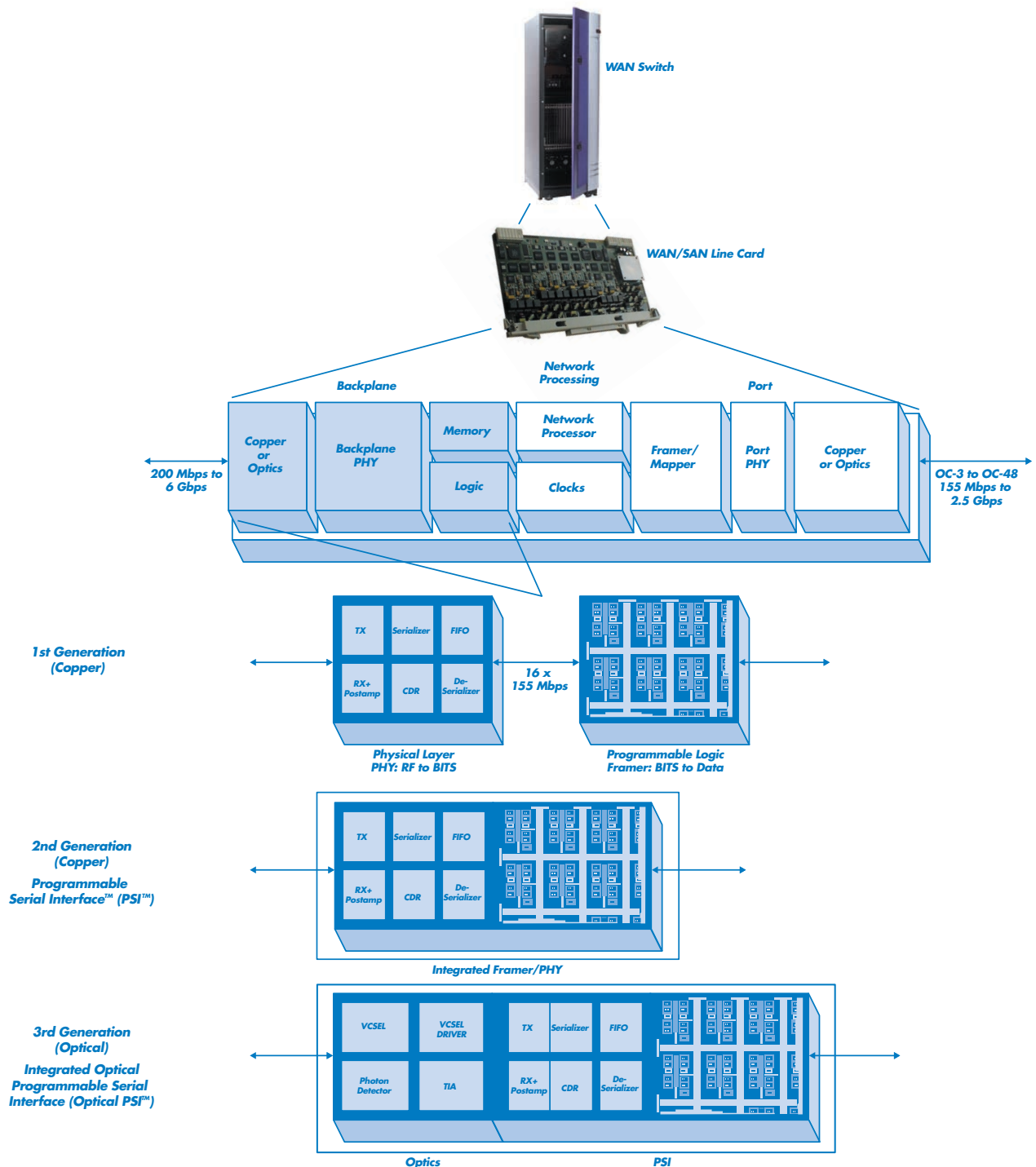
Excludes effects of mergers prior to merger date.



Driving the Communications Revolution™

Building Communications System Solutions

Cypress customers have helped us to define highly integrated communications system solutions. This example shows the integration of a backplane solution for a line card used in routers, switching or storage systems. All of Cypress's core product competencies are used: physical layer, programmable logic and optical design. Integration increases performance and saves our customers valuable board space and material cost in the creation of electronics subsystems.



CORPORATE PROFILE

Cypress Semiconductor Corporation, now in its second decade, provides a broad range of high-performance integrated-circuit solutions to leading networking, telecommunications, and computer companies worldwide. With a focus on emerging communications applications, Cypress combines its core competencies and IP in programmable logic, high-speed physical-layer communications links, interface solutions, communications memory, and timing technology to produce ICs optimized for high-speed systems that feed bandwidth-hungry Internet applications and other communications markets. Cypress aims to become the preferred silicon supplier for Internet switching systems and for every Internet data stream to pass through at least one Cypress IC.

Cypress focuses on four core communications market segments: wide area networks (WAN), storage area networks (SAN), wireless terminals (WIT) and wireless infrastructure (WIN). More than two-thirds of Cypress's sales come from these markets and from dynamic companies such as Alcatel, Cisco, Ericsson, Lucent, Motorola, Nortel Networks, and 3Com.

Cypress markets its products through direct sales offices in North America, Europe, and Asia and a worldwide network of distributors and sales representatives. In 2000 exports accounted for 49% of total revenues.

Cypress manufactures its products at wafer manufacturing plants in California, Minnesota, and Texas. The Company operates an advanced test-and-assembly facility in the Philippines.

Cypress was founded in 1982 and is listed on the New York Stock Exchange under the symbol CY. Corporate headquarters are located in San Jose, California. Company information can be accessed on the worldwide web at <http://www.cypress.com/>.

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FINANCIAL HIGHLIGHTS

(In thousands, except per-share data)

	2000	1999	Change
For the year:			
Revenues	\$ 1,287,787	\$ 745,042	73%
Operating income (loss)	328,839	51,607	537%
Net income (loss)	277,308	88,130	215%
Net income (loss) per share:			
Basic	\$ 2.29	\$ 0.81	183%
Diluted	\$ 2.03	\$ 0.76	167%
At year-end:			
Total assets	\$ 2,361,754	\$ 1,146,958	106%
Cash, cash equivalents and short-term investments	884,601	280,947	215%
Stockholders' equity	1,327,668	718,620	85%
Stockholders' equity per share	\$ 10.96	\$ 6.64	65%
Weighted average common and common equivalent shares outstanding			
Basic	121,126	108,156	12%
Diluted	144,228	115,527	25%

TO OUR SHAREHOLDERS

Cypress had a great year in 2000, as is clearly indicated by the quarterly revenue results graphed in *Figure 1*. Cypress set bookings and revenue records six quarters in a row, ending the year with \$1.288 billion in revenue to record our first billion-dollar year. The revenue records also produced four consecutive earnings records, as shown in *Figure 2*. For the year, Cypress earnings per share before goodwill (EBG) were \$2.39, more than double our prior best of \$1.06.

While a look at Cypress's 2000 revenue and earnings in the rear-view mirror is a pretty sight, we are now focused on 2001, which is starting off poorly. We expect that Cypress's revenue in Q1 2001 will be down more than 20% from the record set in the fourth quarter of 2000. The personal-computer market was sluggish for most of 2000, and in the second half of the year, the data communications market also declined. The slowdown in both markets appears to be end-demand related, with excess customer inventories exacerbating the problem.

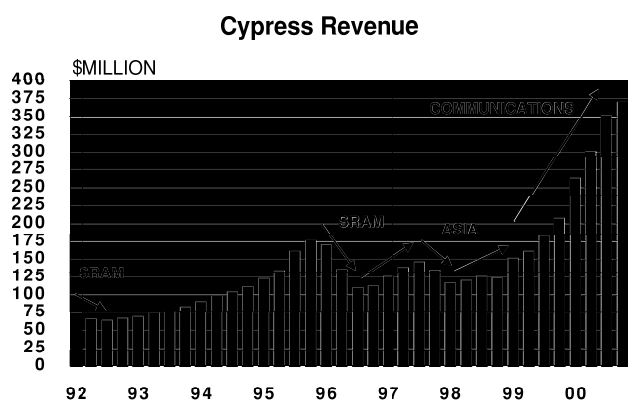


Figure 1. Cypress had a great year in 2000, attaining six consecutive quarters of revenue and bookings records to finish the year with revenue of \$1.288 billion.

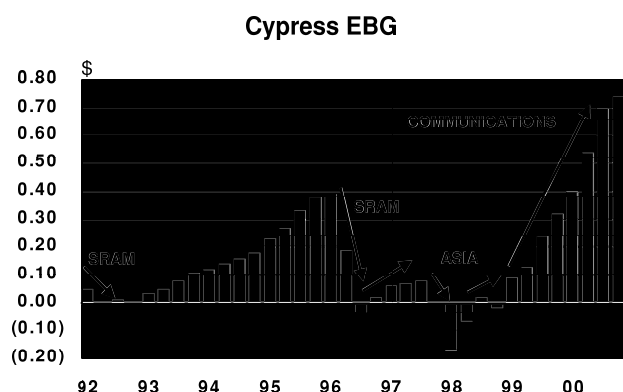
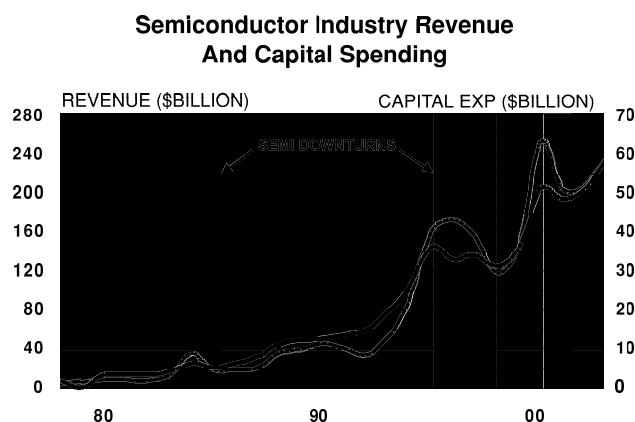


Figure 2. Cypress also posted four consecutive record quarters of earnings before goodwill (EBG), with a year-end figure of \$2.39—more than double our prior record of \$1.06 in 1995.

Fortunately, it appears that the semiconductor industry has not repeated the mistakes of 1996–1998, when it also overbuilt capacity to compound the effects of a demand slowdown. *Figure 3* shows semiconductor industry revenue and capital expenditures by year. The scales on the graph are such that in quarters when the two lines intersect, the semiconductor industry spent approximately 25% of its revenue on capital equipment—about the right number to maintain, but not to overbuild, capacity. The graph shows that the semiconductor boom of 1993–1995 was partly a product of building too little capacity from 1991–1993. Conversely, the semiconductor contractions of 1996 and 1998 were the product of excess capacity building during that period. The graph shows that despite what appeared to be the beginning of a sizable capital buildup early in 2000, our industry has reacted quickly to prevent acute overcapacity from occurring again. The industry is thus in a demand-related slowdown, without much pressure from excess capacity. Our visibility into the timing of a semiconductor market recovery is very limited. The best macroeconomic data we have still points to a modest, second-half 2001 recovery. Whatever happens, we feel that Cypress is in much better shape to face a tough 2001 than we were when we faced the downturn of 1996–1998. I will explain why we believe that in detail in this report.

Unlike our success in 1995, the excellent financial results produced in 2000 were not the result of increasing prices in the market for static random access memories (SRAMs). The data in *Figure 4* (opposite) shows that SRAM prices were stable and low during 2000. The primary driving force behind Cypress's prosperity in 2000—and, we believe, its resilience during 2001—is new product revenue, and,



Source: SEMI/Morgan Stanley/Cypress

Figure 3. Despite an uptick early in 2000, capital spending in the semiconductor industry grew at a modest pace, leaving it well-positioned to avoid the overcapacity issues associated with the market slowdowns of 1996 and 1998.

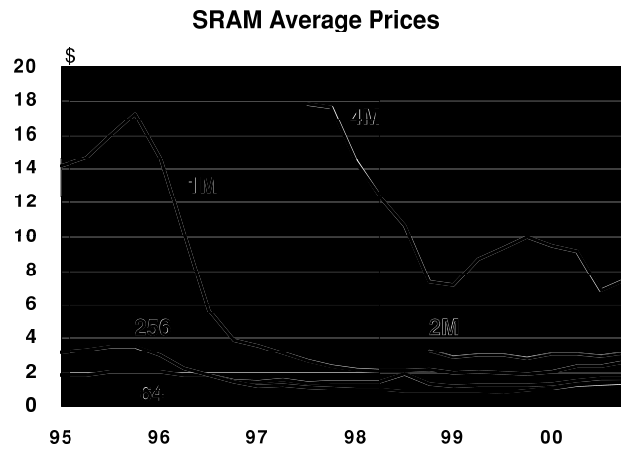


Figure 4. SRAM prices were stable and low throughout 2000, indicating that the driving force behind Cypress's rapid growth during the year was new product revenue (see Figure 5).

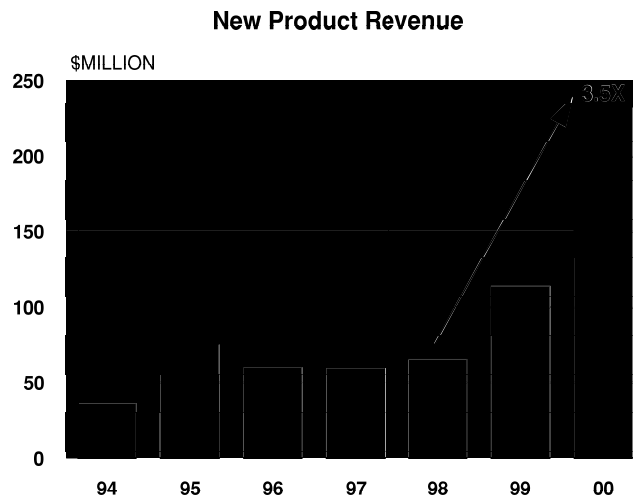


Figure 5. New product revenue soared in 2000 and increased by a factor of 3.5x over a two-year period, making Cypress a more recession-resistant company; the sharp revenue increase was the result of an intensive new product development program launched by Cypress in 1997.

more specifically, new product revenue focused on data communications. Figure 5 shows that our new product revenue increased by a factor of 3.5 in just two years. This dramatic improvement is the result of a conscious effort we began in 1997 to create more new products faster in order to diversify our product portfolio and become more recession-resistant. That program included: (1) a dramatic increase in the number of circuit designers at Cypress from 189 to 358, (2) the expenditure of more than \$53 million for state-of-the-art design software and hardware, (3) an intense management focus to reduce our design cycle time and to get our designs to work the first time, and, (4) a companywide bonus program—currently averaging five days of pay per quarter—rewarding employees in direct proportion to Cypress's new product revenue.

We have also extensively re-engineered our organization over the last two years to improve our competi-

tiveness and to focus on data communications. As shown in Figure 6, Cypress was a \$504-million company in the third quarter of 1998 with four product divisions containing 11 business units. The business units shown in black were active with current R&D activity; the others were older businesses in a harvest mode. Figure 7 shows the end result of the changes we made to the organization over the next two years, as we tripled the size of the business to \$1.480 billion in annualized revenue. The business units highlighted in blue in Figure 7 are new initiatives that are part of our re-engineering process.

In the Memory Products Division (MPD), we added business units to produce micropower SRAMs for portable communications devices (these memories are dubbed MoBL™ SRAMs for More Battery Life™) and synchronous SRAMs optimized for the switches and routers used in the data communications industry. In addition to our own synchronous SRAM effort, we acquired Galvantech, which brought with it a significant synchronous SRAM business—and key design wins at important data communications companies,

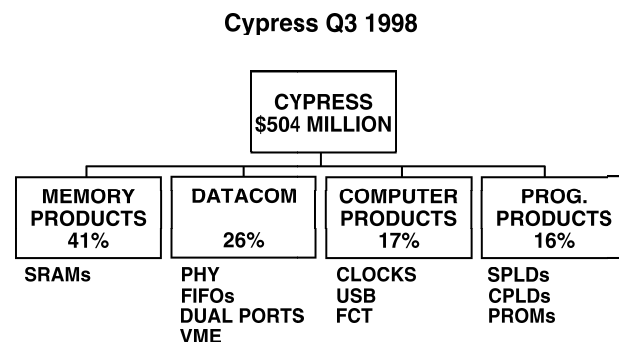


Figure 6. In Q3 1998, Cypress had annualized revenue of \$504 million with four product divisions and 11 business units; units in black were supported with R&D investment, while those in gray were legacy businesses in a harvest mode.

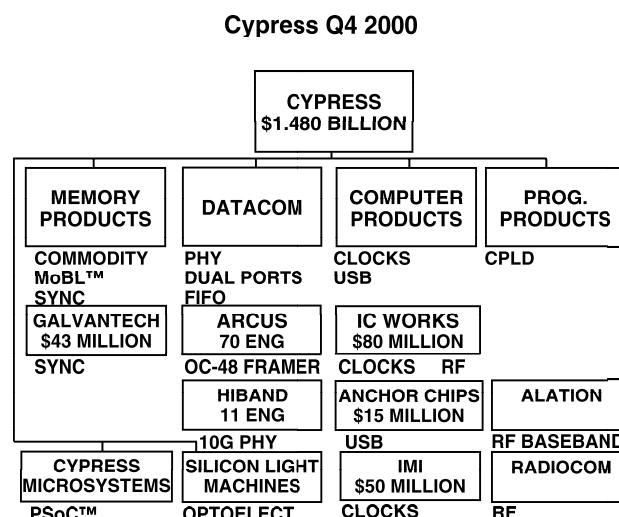


Figure 7. By Q4 2000, Cypress achieved an annualized run rate of \$1.480 billion in revenue based largely on revenues from the communications industry.

such as Cisco Systems, Redback Networks, and Extreme Networks.

We added to our Data Communications Division (DCD) at every opportunity, as depicted in *Figure 7*. For more than a decade, Cypress has shipped physical-layer (“PHY”) products, which transmit and receive data directly from transmission media, such as fibers or cables. Our PHYs currently support data transmission rates from 155 megabits per second (Mbps) to 2.488 gigabits per second (Gbps). To extend that range, we acquired HiBand Semiconductors, a small Silicon Valley company that has developed an advanced 10-Gbps PHY, pulling in one of the products on our roadmap. We also acquired Arcus Technology, an expert in making “framers,” the next chip in the data communications path after the PHY. Framers take in the bit stream from the PHY and convert it into meaningful data. Arcus is about to sample a second-generation OC-48 (2.488 Gbps) framer that will be matched with our OC-48 PHY.

Currently, all Cypress PHYs transmit and receive electrical signals to and from copper wires. Last year, we acquired Silicon Light Machines, a Silicon Valley company specializing in optics. Silicon Light Machines will allow Cypress to introduce a PHY product in 2001 that transmits and receives data in the form of light on optical fibers.

A third way to transmit and receive data is by radio frequency (RF) signals. RF transmission requires two skills, the ability to make a silicon radio and the ability to encode and decode data onto and off of that RF signal. We acquired RadioCom Corp., a small silicon radio company in Portland, Oregon, to give Cypress the core competency to make silicon radios. Once an RF signal has been received, a complex digital signal processor (DSP) is required to recover the data from the RF signal. We acquired Alation Systems Inc., a Silicon Valley DSP company, to give Cypress those skills. Alation and Radiocom are working together with Cypress engineers to produce a “Bluetooth” data communications link; Bluetooth is a new industry standard that will provide wireless connectivity between personal computers and their peripherals. Ultimately, Bluetooth links will also be deployed

widely to allow many forms of wireless personal communication, through so-called “piconets.”

Our Computer Products Division (CPD), as outlined in *Figure 7*, is No. 1 in each of its two largest businesses: clocks and Universal Serial Bus (USB) chips. “Clocks” are the essential timing element in every electronic system. We build clocks for computers, data communications products and consumer products. Cypress got into the clock business with the acquisition of Seattle’s IC Designs in 1992. We now have three groups with 170 people in Seattle. Subsequently, we acquired two additional clock companies—San Jose’s IC Works in 1998 and Milpitas, California-based International Microelectronic Products, Inc. (IMI) this year—to diversify our clock portfolio.

In 1997, our Seattle group invented our first USB product, the new connectivity standard for personal computers. In 1999, we improved our USB line with the acquisition of Anchor Chips, a San Diego company specializing in high-performance USB chips, which are complementary to our internally developed products. We also acquired Intel’s USB business in 1999.

Cypress has funded numerous start-ups in its history. Last year, we launched Cypress MicroSystems, a Seattle-based company specializing in microcontrollers. The team founding Cypress MicroSystems is a spin-off of our Seattle clock division. Cypress decided to fund their effort, rather than letting the benefit accrue to venture capitalists. Cypress MicroSystems’s special advantage is that its microcontroller combines programmable logic blocks, programmable analog blocks and programmable interconnect to provide programmable system-on-chip™ (PSoC™) devices. The high degree of programmability on our PSoC allows a user to create a custom microcontroller, which can then be programmed and used like a conventional microcontroller. We expect that Cypress MicroSystems will start shipping its breakthrough product this year and turn profitable in 2002, at which time Cypress has acquisition rights.

In mid-2000, we reorganized the company one more time to better address our markets. The new organization is shown in *Figure 8* (above right).

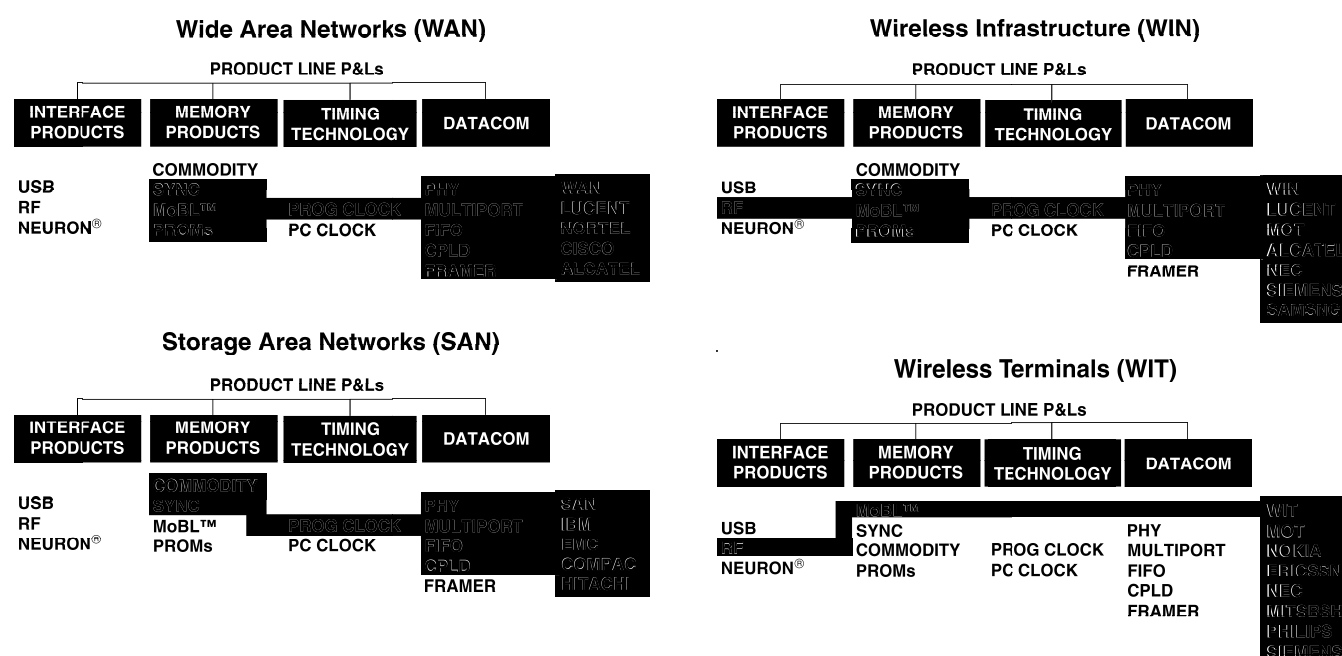


Figure 8. Cypress reorganized its 14 business units in 2000 to enhance its focus on four key communications end markets: wide area networks (WAN), storage area networks (SAN), wireless infrastructure (WIN) and wireless terminals (WIT). The figures show the new Cypress business units and major Cypress customers that align with each core market segment. Neuron is a registered trademark of Echelon Systems Corp.

Our 14 business units are now organized into four product line divisions: Datacom, Timing Technology, Memory Products, and a new division called Interface Products, which includes our USB, RF and Control Communications businesses. In addition to the traditional divisions with business units in a “vertical” organization, we have also created “horizontal” or market-segment divisions which focus on end-markets, rather than product lines. These four new divisions address wide area networks (WAN), storage area networks (SAN), wireless infrastructure (WIN), and wireless terminals (WIT). The figures show which major customers align with each market segment and also which of our portfolio of business units aligns to each market segment. The vice presidents who run the four new divisions (WAN, SAN, WIN, WIT) interface with our customers at a systems level, work with customer architects to define new products, and guide our product lines to produce the most complete and compelling product portfolios for our end customers. The four new market-segment divisions are also stand-alone profit and loss centers that enable us to look at the economics of our end-market businesses, regardless of which product line sold the products.

The fourth-quarter 2000 revenue mix and profit margin for our new divisions are shown in *Figure 9*. Computation and other businesses declined to less than 20% of Cypress’s total revenue. *Figure 9* clearly shows why we have chosen to focus on the four new divisions: They averaged over 80% growth and about 40% profit during 2000. Addressing these high-

growth, high-profit sectors of the end market is why we reorganized.

Cypress’s primary strategy is to serve the four end-markets outlined above. Our Memory Products and Timing Technology divisions focus on making the specialized memories and precise clocks required by our datacom customers. The linchpins of our product strategy, however, come from the Data Communications Division, which makes chips that actually perform the data-transmission and processing functions at the heart of our customers’ systems. Our basic datacom strategy is to start at the data-transmission medium—be it copper, fiber or air—and provide the PHY chips that transmit and receive off those media.

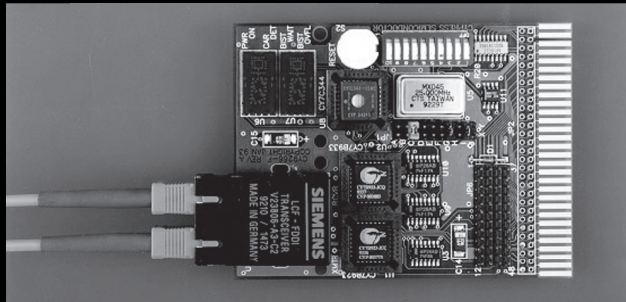
Segment Financials Q4 2000

	% OF REVENUE	2000 % GROWTH	2000 % PROFIT*
WAN/SAN	44%	89%	38%
WIN	19	142	40
WIT	19	65	39
COMPUTATION/OTHER	18	34	26
TOTAL	100%	78%	36%

80% GROWTH 40% PROFIT

Figure 9. Under Cypress’s communications market focus, our computation and other businesses have declined to less than 20% of total revenue, while our four new divisions posted robust growth, increasing 80% in revenue year-on-year from 1999–2000 and 40% in profit.

*Profit before goodwill, other non-recurring items and taxes.



ucts, which Cypress has been manufacturing for a decade.

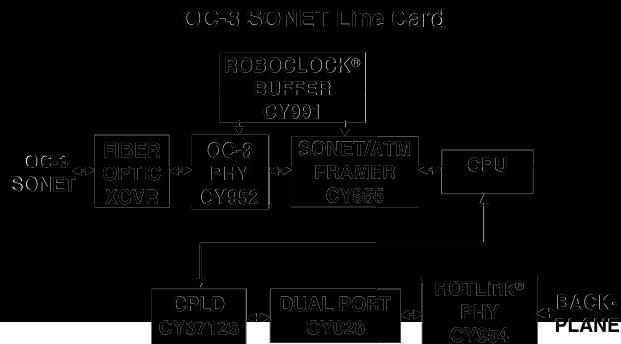


Figure 11. In addition to PHYs, Cypress produces other components on an OC-3 line card. These include a framer that converts a bitstream into SONET frames, Dual-Port RAM to buffer the data, and a high-performance RoboClock® programmable-skew buffer that allows designers to solve difficult board layout issues.

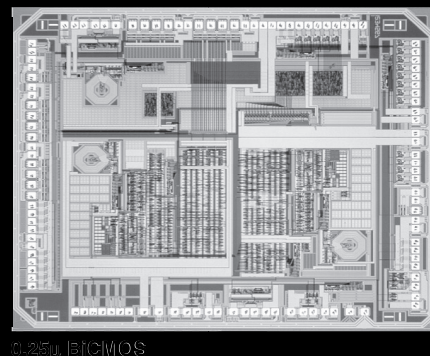
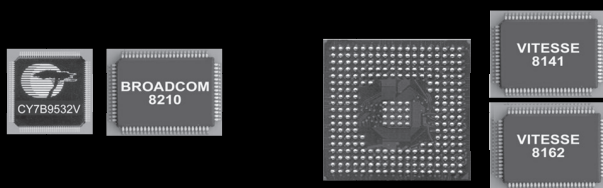


Figure 12. Cypress's OC-48 PHY is designed to operate in the SONET telephone system at a data transmission rate of 2.488 gigabits per second (Gbps), 16 times faster than our OC-3 PHY. The chip is designed on an advanced 0.25-micron BiCMOS technology, providing industry-leading performance.

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site). In the critical areas of package and die size, input sensitivity to tiny signals, and power consumption, the Cypress product provides superior performance. As we did at the OC-3 level, we have also produced most of the products required to make a complete OC-48 line card, as shown in *Figure 14* (opposite). The only product on the OC-48 line card not yet in production is our SONET framer, a 14-million-transistor chip currently in the final design stage at our Bangalore, India, design center. Nonetheless, we already have numerous design



...which can be programmed at the customer's discretion—to be a framer, processor or crossbar switch. This data then emerges from the PLD in 16 streams of 155 Mhps each. In turn, those data streams are concatenated into a single 2.5 Gbps stream by our OC-48 PHY (which in this example

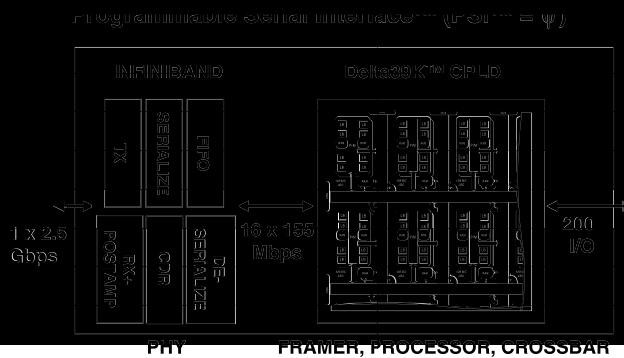


Figure 15. Cypress combined its abilities in programmability and high-speed serial links to create a family of CPLD/physical-layer hybrids—named Programmable Serial Interface™ (PSI™) chips—ahead of the competition.

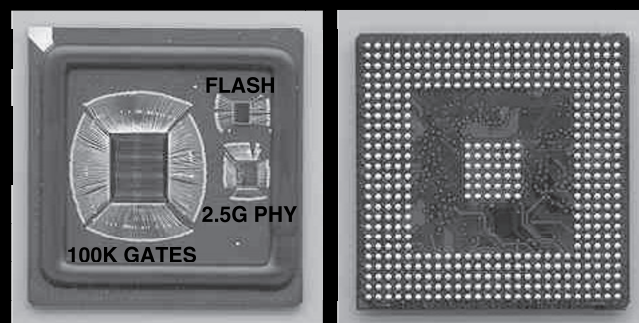
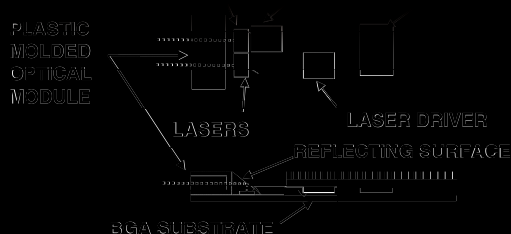


Figure 16. A photo of our Programmable Serial Interface chip reveals 100K gates of logic, a flash memory to program the logic and a 2.5 Gbps physical-layer IC. Cypress is a leader in this new field, ahead of PHY manufacturers AMCC and Vitesse and programmable logic specialists Xilinx and Altera.



Optoelectronic Package

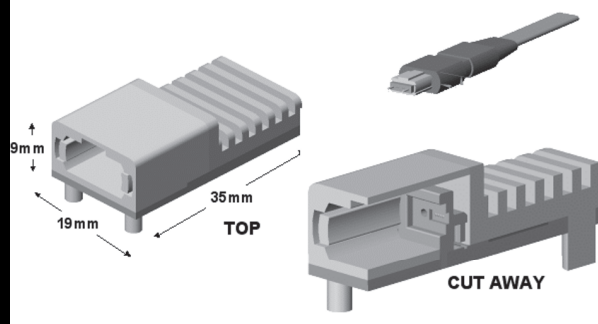


Figure 17. With the help of Silicon Light Machines, Cypress will pack its entire Optical PSI™ product in a single, eight-fiber optoelectronic ball grid array (BGA). We expect to produce our first optical PSI products in 2001.

data is transmitted by vertical-cavity surface emitting lasers (VCSELs). We will eventually integrate BiCMOS VCSEL-driving circuits into our PHY products. Light is received by a photon detector (simply, a high-tech solar cell), whose weak signal is amplified by a transimpedance amplifier (TIA), which will also eventually be integrated into our PHY product. The optical PSI product—or $\lambda\psi^{\text{TM}}$ as we call it—has an optoelectronic front end that converts light to an RF signal, a PHY that converts the RF signal to digital bits of information, and a framer that converts bits of information into meaningful data. With the help of the engineers at Silicon Light Machines, we are packing this entire product in a single eight-fiber optoelectronic ball grid array (BGA) package, as outlined in Figure 17. We expect to produce the first $\lambda\psi$ product this year.

2000: \$1 Billion in Communications

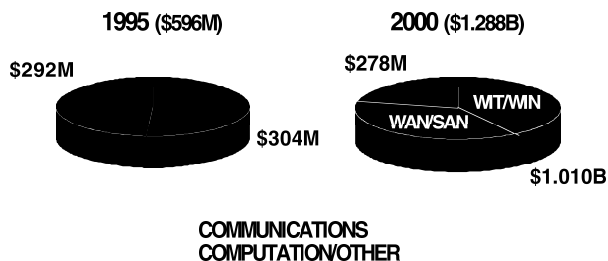


Figure 18. In 1995, Cypress shipped \$596 million in revenue, comprising \$292 million in computation and \$304 million in communications. By 2000, Cypress tripled its communications revenues to more than \$1 billion.

Cypress has been re-engineering itself for years, as described by the transformation shown in Figures 6 and 7. That result has already rippled through to our bottom line in a substantial way. In 1995, Cypress recorded \$292 million in computation revenue and an equivalent \$304 million in communications revenue. In just five years, we tripled our datacom-based revenue to \$1.010 billion (Figure 18). Our current revenue base, therefore, rests on a more-solid platform because, despite the current downturn, our strategy of focusing on optical communications will position us well for the rest of this decade.

We believe that 2001 will be a difficult year for the semiconductor industry. We also believe Cypress will traverse the year stably and profitably, despite industry problems.

T.J. Rodgers
President and CEO

Selected Consolidated Financial Data

(In thousands, except per-share amounts)

(Unaudited)

Year Ended^(1, 2)

	2000	1999	1998	1997	1996
Operating Results:					
Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915	\$ 632,969	\$ 600,032
Restructuring, acquisition and other non-recurring costs, net	55,729	34,091	60,737	13,551	10,932
Operating income (loss)	328,839	51,607	(115,559)	4,324	51,282
Income (loss) before income taxes	370,170	95,169	(112,702)	9,305	52,888
Net income (loss)	277,308	88,130	(101,594)	3,196	22,412
Net income (loss) per share:					
Basic	\$ 2.29	\$ 0.81	\$ (0.97)	\$ 0.03	\$ 0.24
Diluted	\$ 2.03	\$ 0.76	\$ (0.97)	\$ 0.03	\$ 0.23
Weighted average common and common equivalent shares outstanding:					
Basic	121,126	108,156	105,238	102,920	92,317
Diluted	144,228	115,527	105,238	110,820	97,767
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 884,601	\$ 280,947	\$ 174,513	\$ 213,939	\$ 98,353
Working capital	983,359	360,639	250,889	319,836	126,985
Total assets	2,361,754	1,146,958	850,645	1,000,597	844,118
Long-term debt and capital lease obligations (excluding current portion)	631,055	170,884	170,540	188,467	106,607
Stockholders' equity	\$ 1,327,668	\$ 718,620	\$ 517,825	\$ 658,643	\$ 514,287

(1) We operate on a 52- or 53-week fiscal year. Fiscal years 2000 and 1999 were 52-week fiscal years ending on the Sunday closest to December 31. 1998 was a 53-week fiscal year ending on the Sunday closest to December 31. Fiscal years 1996 and 1997 were 52-week fiscal years ending on the Monday closest to December 31.

(2) The preceding table presents financial information including the eight acquisitions completed in fiscal 1999 and 2000. See Notes 3 and 4 of the financial statements for discussions of the acquisitions, which may affect the comparability of the data.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

(In thousands, except per-share amounts)

	Year Ended			% Increase	
	December 31, 2000	January 2, 2000	January 3, 1999	1999 to 2000	1998 to 2000
Revenue	\$ 1,287,787	\$ 745,042	\$ 588,915	72.8%	118.7%
Net Income (Loss)	277,308	88,130	(101,594)	214.7%	373.0%
Diluted Earnings Per Share	\$ 2.03	\$ 0.76	\$ (0.97)	167.1%	309.3%

Cypress achieved record annual revenues of approximately \$1.3 billion for fiscal year 2000, the first billion-dollar year in the company's history. In addition, Cypress reached another long standing goal by exceeding \$250 million in pre-tax profits. Cypress is proud to have grown revenue at a rate of 72.8% in 2000, twice the semiconductor industry growth rate of 36%.

On November 30, 2000, the Board of Directors of Cypress authorized the repurchase of 5 million shares of Cypress's outstanding common stock, which is listed on the New York Stock Exchange under the symbol "CY." On December 21, 2000, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress's outstanding common stock, bringing the total shares authorized in the repurchase program to 10 million. As of December 31, 2000, 6.3 million shares had been repurchased at an average cost of \$22.90 per share. In conjunction with the stock repurchase program, the Board of Directors authorized the sale of up to 2.5 million put warrants. As of December 31, 2000, Cypress had sold put warrants through private placements for which Cypress received \$6.3 million. Cypress has a maximum potential obligation to purchase 1.5 million shares of its common stock at an aggregate price of \$35.5 million as of December 31, 2000. The put warrants have various expiration periods from March 2001 through September 2001. Cypress has the right to settle the put warrants with cash or settle the difference between the exercise price and the fair market value at the exercise date with stock or cash. No amount was classified out of stockholders' equity in the accompanying consolidated balance sheet.

On September 7, 2000, Cypress called for the redemption of all its 6.0% Convertible Subordinated Notes ("Notes") due in 2002. The aggregate amount of principal outstanding at the time of the call was approximately \$160 million. Holders of the Notes could convert their Notes into shares of Cypress's common stock at a conversion rate of approximately 42.33 shares of stock per \$1,000 principal amount of the Notes. Substantially all of the Notes were converted prior to the redemption deadline of October 2, 2000, increasing the amount of common stock outstanding by 6.8 million shares.

On August 30, 2000, Cypress acquired all of the outstanding capital stock of Silicon Light Machines ("SLM"). SLM is a supplier of microelectromechanical systems ("MEMS") technology applicable to fiber-optic networks and other applications. The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated balance sheet as of August 30, 2000, the effective date of the purchase. There were no significant differences between the accounting policies of Cypress and SLM. Cypress acquired SLM for a total consideration of \$164.0 million, including \$161.2 in stock, an existing \$2.2 million investment, and direct acquisition costs of \$0.6 million for legal and accounting fees.

On July 7, 2000, Cypress entered into an agreement with Mosel Vitelic (“Mosel”) to jointly develop a 0.12-micron process technology to be deployed initially in Cypress’s R&D Fab in San Jose. Under the agreement, Mosel engineers will work with Cypress’s existing Fab 1 research and development team on defining a 0.12-micron manufacturing process. Cypress and Mosel also agreed over time to share some of the costs of purchasing new equipment to facilitate tighter process geometries. The agreement will allow Cypress and Mosel to continue to offer cutting-edge process technology, which we expect will produce new high-performance, market-leading products more economically and quickly.

On June 29, 2000, Cypress acquired all of the outstanding capital stock of RadioCom Corporation (“RadioCom”), a corporation specializing in the design and development of semiconductor radio frequency (“RF”) integrated circuits. The acquisition was accounted for using purchase accounting, and the fair value of assets acquired and liabilities assumed were included in Cypress’s consolidated financial statements as of June 29, 2000, the effective date of the purchase. Cypress acquired RadioCom for total consideration of \$10.2 million in stock.

On June 26, 2000, Cypress completed a \$287.5 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 3.75% and an initial conversion premium of 27%. The notes are convertible into approximately 4.6 million shares of common stock and are callable by Cypress no earlier than July 5, 2003. Net proceeds were \$279.6 million, after issuance costs of \$7.9 million.

On May 24, 2000, Cypress completed its merger with Alation Systems, Inc. (“Alation”) a corporation engaged in the design, development and marketing of wireless home networking products and technologies. Cypress issued 0.5 million shares of its common stock plus options in exchange for all outstanding stock and options of Alation. The transaction was accounted for as a pooling of interests. The fiscal years of Cypress and Alation were different, and Alation has changed its fiscal periods to coincide with that of Cypress.

On March 2, 2000, Cypress completed its merger with Galvantech, Inc. (“Galvantech”), which was accounted for as a pooling of interests. Cypress issued 3.0 million shares of its common stock plus options in exchange for all outstanding stock and options of Galvantech. The fiscal years of Cypress and Galvantech were different and Galvantech has changed its fiscal periods to coincide with that of Cypress. Galvantech specializes in ultra-high performance memories for data communications applications.

On February 25, 2000, Cypress sold its Fast CMOS Technology (“FCT”) business including inventories, product software, all technical data, and a license for the related intellectual property. Total proceeds from the sale were \$7.5 million and Cypress recorded a gain of \$5.0 million from the sale. In conjunction with this sale, Cypress entered into a supply agreement for the related existing inventories and future requirements, based on historical run rates. Cypress has continued to supply product through the end of fiscal 2000, and completed its obligations under the supply agreement during the fourth quarter of fiscal 2000. Revenues from FCT products were approximately 1% of our 1999 revenues.

On January 31, 2000, Cypress filed a universal shelf registration statement with the Securities and Exchange Commission. The registration statement, which was effective February 8, 2000, allows Cypress to market and sell up to \$400.0 million of its securities. The shelf registration statement allows Cypress flexibility to raise funds from the offering of debt securities, common stock, preferred stock or a combination thereof, subject to market conditions and Cypress’s capital needs. In June 2000, Cypress completed a \$287.5 million registered-placement of 5-year convertible subordinated notes. At December 31, 2000, the balance remaining related to the shelf registration statement is \$112.5 million.

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

Results of Operations

Revenues

Revenues for fiscal 2000 were \$1,287.8 million, an increase of \$542.7 million or 72.8% compared to revenues for fiscal 1999, and an increase of \$698.9 million or 118.7% compared to revenues for fiscal 1998. Cypress derives its revenues from the sale of Memory Products and Non-memory Products, which are primarily targeted to the data communications and computation markets.

(In thousands)

	Year Ended			% Increase	
	December 31, 2000	January 2, 2000	January 3, 1999	1999 to 2000	1998 to 2000
Memory Products	\$ 638,111	\$ 309,002	\$ 229,581	106.5%	177.9%
Non-memory Products	649,676	436,040	359,334	49.0%	80.8%
Total Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915	72.8%	118.7%

Revenues from the sale of Memory Products for fiscal 2000 increased \$329.1 million or 106.5% over revenues from the sale of these products for fiscal 1999 and increased \$408.5 million, or 177.9% compared to fiscal 1998. The increase in Memory Product revenues, as compared to fiscal 1999, resulted from both higher average selling prices ("ASPs") and an increase in unit sales. ASPs grew 47.9% from fiscal 1999 to fiscal 2000 and unit sales increased 39.6% over the same period. When comparing fiscal 2000 to fiscal 1998, unit sales volume of Memory Products increased 68.5%, and ASPs increased 65.0%. The increase in unit sales in fiscal 2000 can be attributed primarily to new product revenues, particularly in the 4 Meg synchronous family, which includes the No Bus Latency ("NoBL") static random access memories ("RAM"s), the 2 and 4 Meg More Battery Life ("MoBL") and the 1 Meg micro-power family of products. The synchronous demand was driven by the surge in the networking market, while sales for MoBL and other micro-power devices were driven by growth in the cellular phone market. High ASPs are a result of strong demand for static RAMs and the continuing increase in the average density (Mbits/unit) of static RAM products sold.

Revenues in 2000 from the sale of Non-memory products increased \$213.6 million or 49.0% from 1999 and grew \$290.4 million or 80.8% from 1998. The growth was predominantly unit related and can be attributed to the market acceptance of Cypress's Physical Layer ("PHY"), data communication, clock and USB products. Key products in the portfolio include our HOTLink optical transceivers, the Roboclock family of clock buffers, our low skew and low jitter programmable clocks, our broad portfolio of specialty multi-port memories and our plug and play USB devices.

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

Cost of Revenues

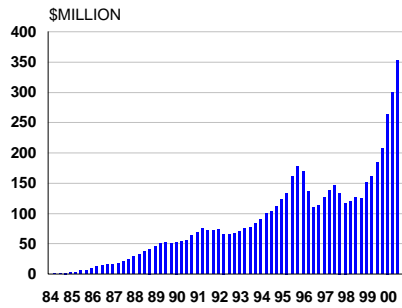
Cost of revenues for fiscal 2000 were 43.9% of revenues, compared to 54.9% of revenues for fiscal 1999 and 72.9% of revenues for fiscal 1998. The decrease in cost of revenues as a percent of revenues was primarily due to a significant increase in unit sales, resulting in a lower fixed cost per unit sold and to the introduction of new products with higher margins.

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

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

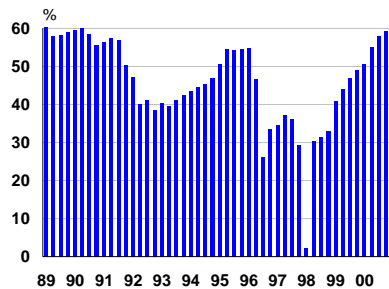
The write-off of equipment was related to equipment identified as obsolete during Cypress's periodic review of equipment and no longer considered usable. Excluding these one-time non-recurring charges, cost of revenues as a percent of revenues for fiscal 1998 would have been 69.8%.

Revenues*



*Historical data does not include effect of Galvantech, Alation, and ICW prior to their mergers.

Gross Margin as a Percentage of Revenue*



*Historical data does not include effect of Galvantech, Alation, and ICW prior to their mergers.

Cypress continues to introduce new products and find new methods of reducing manufacturing costs in order to mitigate the effects of typically declining ASPs on its gross margin. In March 1998, Cypress announced restructuring activities for its domestic wafer fabrication facilities and offshore back-end manufacturing operations. Activities completed to date have increased Cypress's manufacturing efficiencies and as a result, its gross margin has been increasing since the first quarter of fiscal 1998. Cypress completed these restructuring activities in fiscal year 2000.

Research and Development

(In thousands, except percent)

	Year Ended			% Increase	
	December 31, 2000	January 2, 2000	January 3, 1999	1999 to 2000	1998 to 2000
Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915	72.8%	118.7%
Research and development	\$ 184,471	\$ 136,858	\$ 116,871	34.8%	57.8%
R&D as percent of revenues	14.3%	18.4%	19.9%		

Research and development ("R&D") expenditures increased from fiscal 1998 through fiscal 2000 as Cypress continued its effort to accelerate the development of new products and migrate to more advanced process technologies. In fiscal 2000, spending in Cypress's design centers grew due to increased headcount and capital spending. R&D efforts associated with the acquisitions of Alation, RadioCom and SLM also contributed to the increase in fiscal 2000. During fiscal 2000, Cypress began utilizing the 0.15-micron process technology for manufacturing purposes, and started development of 0.12-micron process technologies. Cypress believes that its future success will depend on its ability to develop and introduce new products that will compete effectively on the basis of price, performance, and ability to address customer needs. In fiscal 2000, Cypress completed the conversion of its San Jose R&D wafer fab from a six-inch facility into an eight-inch facility; therefore, the R&D facility is compatible with the technologically advanced wafer fab in Minnesota. This conversion has helped speed the pace of advanced technology transfers to production.

Selling, General and Administrative

(In thousands, except percent)

	Year Ended			% Increase	
	December 31, 2000	January 2, 2000	January 3, 1999	1999 to 2000	1998 to 2000
Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915	72.8%	118.7%
Selling, general and administrative	\$ 153,909	\$ 113,601	\$ 97,267	35.5%	58.2%
SG&A as percent of revenues	12.0%	15.2%	16.5%		

Selling, general and administrative ("SG&A") spending increases from fiscal 1998 to fiscal 2000 have been driven primarily by increased selling and marketing expenses. The increase in selling expenses is primarily due to commission expenses, which have risen in proportion to our revenue growth. In addition, the marketing area has increased expenditures due to building a worldwide infrastructure that can support a multi-billion dollar corporation. Legal and professional costs related to patent infringement litigation (including the successful defense of the EMI lawsuit in 1999), patent filing and our tax-rate optimization program have contributed to increases in administrative costs over the three-year period.

Acquisition, Restructuring and Other Non-Recurring Costs

(In thousands)

	Year Ended		
	December 31, 2000	January 2, 2000	January 3, 1999
Acquisition costs	\$ 54,250	\$ 13,673	—
Non-recurring costs	1,964	24,229	—
Restructuring costs	(485)	(3,811)	60,737
Acquisition, restructuring and other non-recurring costs, net	\$ 55,71629	\$ 34,091	\$ 60,737

During fiscal 2000, Cypress recorded acquisition and merger-related costs of \$54.3 million. Costs of \$39.9 million were incurred in relation to the acquisition of Silicon Light Machines ("SLM"), which was completed on August 30, 2000. SLM acquisition costs consisted of \$30.5 million for in-process research and development, and \$9.4 million for the amortization of intangible assets. Additional costs related to the amortization of intangible assets from the previous acquisitions of Anchor

Chips, Inc. ("Anchor"), Arcus Technology (USA) and Arcus Technology (India) Limited (referred to as "Arcus" on a combined basis), the MAX 5000 Programmable Logic Device ("PLD") product line from Altera, and RadioCom were \$8.9 million. Acquisition costs of \$3.5 million were incurred in relation to the acquisitions of Galvantech, Alation, and RadioCom, which consist primarily of non-cash deferred compensation charges, legal, accounting and investment banking fees. In addition, Cypress recorded \$2.0 million for in-process research and development due to the acquisition of RadioCom.

Cypress incurred a one-time charge of \$2.0 million in the second quarter of fiscal 2000 due to the acceleration of contractual obligations related to the Arcus acquisition.

During fiscal 2000, Cypress reversed \$0.5 million of previously provided restructuring costs related to the decision to close down the Cypress (ICW) wafer fab located in San Jose, California. Cypress determined in the second quarter of fiscal 2000 that no outstanding commitments related to this restructuring existed.

During fiscal 1999, Cypress recorded a net \$34.1 million in restructuring, merger and acquisition, and other non-recurring costs. These one-time, non-recurring costs included a \$12.3 million write-off of a manufacturing asset that was not being used and was subsequently scrapped and an \$11.9 million one-time compensation charge. In the first quarter of fiscal 1999, Cypress recorded one-time charges of \$3.7 million associated with the merger with IC WORKS. These charges were for investment banking fees and other professional fees. Cypress also recorded \$8.8 million in costs associated with the purchase of Anchor and Arcus consisting of \$4.0 million for in-process technology, \$1.6 million for transaction costs and \$3.2 million in amortization of intangible assets. During the fourth quarter of fiscal 1999, Cypress acquired Altera's MAX 5000 Programmable Logic Device product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas. As part of the transaction, Cypress recorded intangible assets associated with the product rights and incurred a charge of \$0.3 million for the amortization of these intangibles. Transaction costs and non-cash compensation costs incurred for other acquisitions were \$0.8 million. These non-recurring charges were offset by a reversal of \$3.0 million of the 1998 restructuring reserve. The reversed charges related to \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and completion of the Alphatec restructuring activities. Cypress also reversed \$0.5 million of the 1998 restructuring reserve for other fixed asset related charges that were no longer considered necessary. During fiscal 1999, Cypress reversed \$0.7 million of the 1996 restructuring reserve related to fixed asset de-installation charges that were no longer required.

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

- The shutdown of Fab 3, located in Bloomington, Minnesota and consolidation of parts of Fab 3 operations with other operations of Cypress.
- The discontinuance of the 0.6 micron 256K static RAM production in Fab 2 located in Texas.
- The conversion of an existing research and development fab located in San Jose (Fab 1) to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.
- The transfer of Cypress's test operations from its subcontractor, Alphatec, in Thailand to Cypress's production facility in the Philippines.
- The restructuring activities described above include the termination of approximately 850 manufacturing employees primarily from Cypress and Alphatec.

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

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

In accordance with the restructuring plan, Fab 3 production was phased down beginning in the second quarter of 1998 and ceased operations in July 1998. From this time, Cypress has held the non-upgradable equipment for sale. As of December 31, 2000, no equipment remains on hand. Cypress recorded a gain of \$2.4 million in fiscal 2000 on the disposal of the equipment, as the proceeds from the sale of the equipment exceeded the originally determined salvage value.

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

Excess equipment in Fab 2 was written down based on the useful lives of the assets and the estimated salvage value of the assets. Cypress had the ability and intention to sell all the equipment immediately, but, due to the semiconductor industry slow-down, Cypress recognized immediate sale of the equipment would be difficult. The equipment was kept in the fab, ready for demonstration and testing by a willing buyer. Cypress used the equipment during the production phase-down period through May 1998. As of December 31, 2000, no equipment remains on hand. Cypress recorded a gain of \$4.2 million in fiscal 2000 on the disposal of the equipment, as the proceeds from the sale of the equipment exceeded the originally determined salvage value.

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

ALPHATEC — Cypress reserved \$5.1 million to provide for the consolidation of Thailand test activities from Alphatec, Cypress's subcontractor, with Cypress's Philippines facility. Of this \$5.1 million reserve, \$1.5 million was related to production inventories which were no longer usable as a result of this consolidation, \$1.3 million was related to severance costs at the subcontractor and \$2.3 million was related to excess equipment and leasehold improvements which were no longer used. The assets were considered held for sale and were written down to their revised carrying value. The transfer of production from Alphatec to the Philippines facility began during the second quarter of 1998 and was completed in January 1999, one month later than originally planned.

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

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

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

Interest Expense

Interest expense was \$23.6 million for fiscal 2000, compared to \$9.6 million for fiscal 1999 and \$11.3 million for fiscal 1998. Interest expense in fiscal 2000 is primarily associated with the 6.0% Convertible Subordinated Notes, issued in September 1997 and due in 2002, the 4.0% Convertible Subordinated Notes, issued in January 2000 and due in 2005, and the 3.75% Convertible Subordinated Notes, issued in June 2000 and due in 2005. The increase in fiscal 2000 of \$14.0 million from fiscal 1999 relates primarily to the increase in interest due under the 4.0% and 3.75% Convertible Subordinated Notes. This increase is offset by a reduction in interest expense due to the conversion of substantially all of the outstanding 6.0% Convertible Subordinated Notes on October 2, 2000, and the retirement of \$15.0 million of these Notes toward the end of 1998. The increase in fiscal 2000 of \$12.3 million as compared to fiscal 1998 relates primarily to the increase in interest due under the 4.0% and 3.75% Convertible Subordinated Notes. This increase is offset by a reduction in interest expense due to the conversion of substantially all of the outstanding 6.0% Convertible Subordinated Notes on October 2, 2000.

Interest expense incurred during fiscal 1998 and fiscal 1999 is primarily associated with the 6.0% Convertible Subordinated Notes. The decrease in interest expense from fiscal 1998 to fiscal 1999 is primarily attributable to the retirement of \$15.0 million of these Notes toward the end of 1998.

Interest Income and Other, Net

Interest income and other, net, was \$64.9 million for fiscal 2000 compared to \$53.2 million for fiscal 1999 and \$14.1 million for fiscal 1998. Interest income and other, net, includes interest income, amortization of bond issuance costs, foreign exchange gains and losses and other non-recurring items.

(In thousands, except percent)

	Year Ended			% Increase	
	December 31, 2000	January 2, 2000	January 3, 1999	1999 to 2000	1998 to 2000
Interest income	\$ 59,152	\$ 18,297	\$ 15,958	223.3%	270.7%
Other income, net	5,812	34,908	(1,825)		
Interest income and other, net	\$ 64,964	\$ 53,205	\$ 14,133		

Interest income increased \$40.9 million or 223.3% when comparing fiscal 1999 to 2000, and \$43.2 million or 270.7% when comparing fiscal 1998 to 2000. These increases in interest income are primarily due to increased cash balances in fiscal year 2000, following the issuances of the convertible subordinated notes in January and June 2000, and higher investment yields.

Other income, net, for fiscal 2000 primarily reflects a \$5.0 million gain on the sale of the FCT product line and a \$4.5 million gain on the disposal of assets partially offset by other items. Other income, net, for fiscal 1999 included a \$36.2 million gain from the sale of a certain investment. Offsetting other income was \$1.0 million related to the amortization of bond issuance costs and \$0.2 million in foreign exchange gains. In fiscal 1998, other income, net, included a \$1.7 million pre-tax net gain related to the retirement of \$15.0 million of Cypress's 6.0% Convertible Subordinated Notes and foreign exchange gains of \$0.5 million. The 1998 other income, net, is offset by a non-recurring, pre-tax charge of \$3.1 million recorded to reflect the decline in value of a certain investment and \$1.0 million in amortization of bond issuance costs.

Taxes

Cypress's effective tax rates for fiscal years 2000, 1999 and 1998 were 25.0%, 7.4% and 9.9%, respectively. A tax benefit of \$11.1 million was realized during fiscal 1998 compared to expenses of \$92.9 million and \$7.0 million during fiscal 2000 and fiscal 1999, respectively. The benefit was attributable primarily to the utilization of loss carrybacks, the utilization of research and development tax credits and non-U.S. income taxed at lower tax rates compared to U.S. tax rates, principally related to Cypress's operations in the Philippines. The increase in the effective tax rate from fiscal 1999 to 2000 can be attributed to non-deductible in-process research and development charges and merger costs offset by utilization of loss carryovers, earnings of foreign subsidiaries taxed at lower rates and tax credits. Cypress's effective tax rates for the fiscal years 2000, 1999 and 1998 excluding non-deductible in-process research and development charges and merger costs, were 22.0%, 5.0%, and 0.0%, respectively. Cypress's effective rate varies from the U.S. statutory rate primarily due to utilization of loss carryovers, earnings of foreign subsidiaries taxed at lower rates and tax credits. The valuation allowance against net deferred tax assets decreased from \$42.6

million to zero from fiscal 1999 to 2000, as Cypress believes it will realize all of its deferred tax assets.

Earnings Before Goodwill

Cypress reported basic earnings before goodwill (“EBG”) of \$2.72 per share and diluted EBG of \$2.39 per share for the year ended December 31, 2000. EBG refers to earnings excluding goodwill and acquisition costs, restructuring related charges and credits, and non-recurring items. Goodwill and acquisition costs consist of the amortization of intangible assets, non-cash deferred compensation expenses, in-process research and development costs, and transaction costs, net of tax. Non-recurring costs (gains) consist primarily of gains on sales of assets, net of tax. These types of charges and credits are excluded from the computation of EBG and are collectively referred to as goodwill by Cypress. Cypress has presented EBG as a measure of our operating results; however, EBG is not intended to replace operating income or net income as an indicator of operating performance or to replace cash flow as a measure of liquidity because EBG is not a concept under generally accepted accounting principles. Also, our calculation of EBG may not be comparable to EBG as calculated by other companies. The table below reconciles basic and diluted net income (loss) per share to basic and diluted earnings (loss) before goodwill per share, respectively.

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

	December 31, 2000	January 2, 2000	January 3, 1999
Basic net income (loss) per share	\$ 2.29	\$ 0.81	\$ (0.97)
Goodwill and acquisition costs net of taxes per share	0.51	0.02	—
Non-recurring costs (gains) net of taxes per share	(0.08)	—	—
Restructuring costs (credits) net of taxes per share	—	(0.03)	0.52
Basic earnings (loss) before goodwill per share	\$ 2.72	\$ 0.80	\$ (0.45)

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

	December 31, 2000	January 2, 2000	January 3, 1999
Diluted net income (loss) per share	\$ 2.03	\$ 0.76	\$ (0.97)
Goodwill and acquisition costs net of taxes per share	0.43	0.02	—
Non-recurring costs (gains) net of taxes per share	(0.07)	—	—
Restructuring costs (credits) net of taxes per share	—	(0.03)	0.52
Diluted earnings (loss) before goodwill per share	\$ 2.39	\$ 0.75	\$ (0.45)

Liquidity and Capital Resources

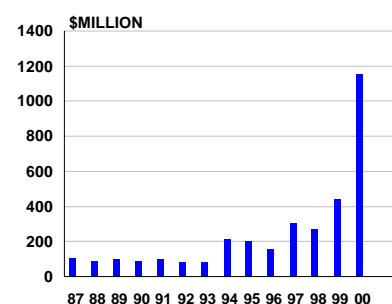
(In thousands)

	Year Ended	
	December 31, 2000	January 2, 2000
Cash, cash equivalents and short-term investments	\$ 884,601	\$ 280,947
Working capital	983,359	360,639
Long-term debt and capital lease obligations (excluding current portion)	631,055	170,884
Stockholders' equity	1,327,668	718,620
Net cash flow generated from operating activities	\$ 521,097	\$ 157,622

Cypress's cash, cash equivalents and short-term investments totaled \$884.6 million at the end of fiscal year 2000, a \$603.7 million increase from the end of fiscal 1999. Working capital increased \$622.7 million during the same period. These increases are attributed primarily to net cash flows from Cypress's operating activities.

Operating cash flows increased 230.6% and 371.3% from 1999 and 1998, respectively, to \$521.1 million in fiscal 2000. For the year ended December 31, 2000, cash provided by operating activities of \$521.1 million was primarily attributable to earnings of \$277.3 million, tax benefits from stock options of \$56.7 million, acquired in-process research and development of \$32.4 million, depreciation

Cash, Cash Equivalents, and Investments*



*Includes Cash & Short-Term Investments, Restricted and Long-Term Investments. Historical data does not include effect of Galvantech, Alation, and ICW prior to their mergers.

and amortization of \$145.4 million and changes in working capital of \$2.0 million. For the year ended January 2, 2000, cash provided by operating activities of \$157.6 million was primarily attributable to earnings of \$88.1 million, depreciation and amortization of \$108.9 million, gain on sale of investment of \$36.2 million, loss on write down of assets of \$11.0 million, tax benefits from stock options of \$13.7 million, and changes in working capital of \$15.2 million. For the year ended January 3, 1999, cash provided by operating activities of \$110.6 million was primarily due to a net loss of \$101.6 million offset by depreciation and amortization of \$117.2 million, restructuring costs of \$69.6 million, and changes in working capital of \$27.2 million. Purchases of investments totaled 492.9 million during fiscal 2000, while investments which were sold or matured, totaled 181.0 million.

On November 30, 2000, the Board of Directors of Cypress authorized the repurchase of 5 million shares of Cypress's outstanding common stock, which is listed on the New York Stock Exchange under the symbol CY. On December 21, 2000, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress's outstanding common stock, bringing the total shares authorized in the repurchase program to 10 million. As of December 31, 2000, 6.3 million shares were repurchased at an average cost of \$22.90 per share. In conjunction with the stock repurchase program, the Board of Directors authorized the sale of up to 2.5 million put warrants. As of December 31, 2000, Cypress sold put warrants through private placements for which it received \$6.3 million. Cypress had a maximum potential obligation to purchase 1.5 million shares of its common stock at an aggregate price of \$35.5 million as of December 31, 2000. The puts warrants have various expiration periods from March 2001 through September 2001. Cypress has the right to settle the put warrants with cash or settle the difference between the exercise price and the fair market value at the exercise date with stock or cash. No amount was classified out of stockholders' equity in the accompanying consolidated balance sheet.

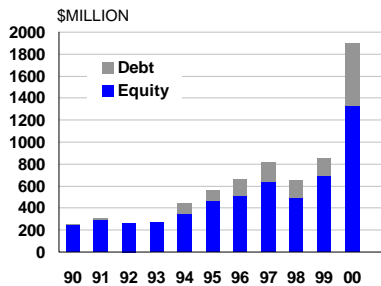
In October 2000, Cypress entered into a financing and supply agreement with ST Microelectronics, Inc. ("ST Micro"). The agreement called for ST Micro to provide funding to Cypress for the purpose of purchasing equipment and increasing fabrication capacity in order to supply ST Micro with product at future dates according to the supply agreement. ST Micro will maintain a security interest in the equipment purchased. Cypress has recorded the repayment obligation as a customer advance showing \$20.2 million in current liabilities and \$51.8 million as a long-term liability. The supply agreement calls for Cypress to make available to ST Micro a minimum quantity of wafers each year from 2001 through 2003.

On September 7, 2000, Cypress called for the redemption of all its 6.0% Convertible Subordinated Notes ("6.0% Notes") due in 2002. The aggregate amount of principal outstanding at the time of the call was approximately \$160 million. Holders of the 6.0% Notes could convert their 6.0% Notes into shares of Cypress's common stock at a conversion rate of approximately 42.33 shares of stock per \$1,000 principal amount of the 6.0% Notes. Substantially all of the 6.0% Notes were converted prior to the redemption deadline of October 2, 2000 increasing the amount of common stock outstanding by 6.8 million shares.

On January 31, 2000, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, which was effective February 8, 2000, as amended by a post-effective amendment thereto effective March 7, 2000, Cypress can, through January 2002, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$400.0 million. The shelf registration statement allows Cypress flexibility to raise funds from the offering of debt securities, common stock, preferred stock or a combination thereof, subject to market conditions and Cypress's capital needs. Pursuant to this shelf registration statement, on June 26, 2000, Cypress completed a \$287.5 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 3.75% and an initial conversion premium of 27.0%. The notes are convertible into approximately 4.6 million shares of common stock and are callable by Cypress no earlier than July 5, 2003. Net proceeds were \$279.6 million, after issuance costs of \$7.9 million. As of December 31, 2000, the balance remaining related to the shelf registration statement is \$112.5 million.

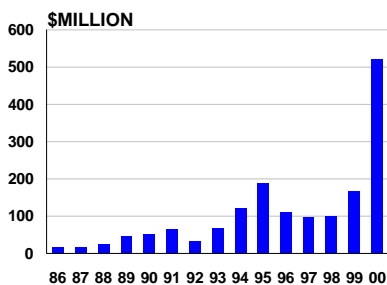
During fiscal 1999, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, Cypress could, through March 2001, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$300.0 million dollars. The full amount of this shelf registration statement has been used by the transactions described in this paragraph. On January 19, 2000, Cypress completed a \$283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.0% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress

Capitalization*



Historical data does not include effect of Galvantech, Alation, and ICW prior to their mergers.

Cash Generated by Operations*



*Historical data does not include effect of Galvantech, Alation, and ICW prior to their mergers.

no earlier than February 5, 2003. Net proceeds were \$275.2 million, after issuance costs of \$7.8 million. Pursuant to the shelf registration, on March 29, 1999, Cypress sold 7.2 million shares of common stock, 2.5 million shares of which were sold by selling stockholders. Cypress received approximately \$33.8 million in proceeds, net of issuance costs, and did not receive any proceeds from the shares sold by the selling stockholders.

During fiscal 2000, Cypress purchased \$338.7 million in capital equipment, a \$224.3 million increase from the \$114.4 million purchased in 1999 and a \$255.1 million increase from the \$83.6 million purchased in 1998. Cypress purchased equipment for its domestic wafer fabrication plants, its test and assembly facility in the Philippines, its back-end manufacturing subcontractors and its design and technology groups. Equipment purchased for the fabs is expected to improve wafer manufacturing capacity and capabilities as Cypress implements new technologies, including its 0.15 and 0.25 micron processes. A majority of the equipment purchased was for Fab 4 located in Minnesota to increase its capacity and capability. Equipment purchased for the Philippines and for use by its subcontractors was used to increase manufacturing capacity and tool certain packaging capabilities. Capital equipment purchases for the technology group are expected to enhance and accelerate research and development capabilities. Capital expenditures in 2001 are expected to be lower when compared to 2000, as Cypress is now realizing the effects of fiscal 2000 efforts to increase wafer manufacturing capabilities and capacity. Cypress completed its upgrade of the research and development fab in San Jose from six-inch to eight-inch during fiscal 2000, ensuring compatibility with Cypress's wafer manufacturing facilities in Minnesota. Cypress will also continue to purchase new software and equipment to enhance its research and development capabilities. In fiscal 2001, Cypress expects to purchase approximately \$135 million in capital equipment.

Employees of Cypress Microsystems ("CMS"), a subsidiary of Cypress, purchasing stock through the Restricted Stock Plan, were offered loans to enable them to purchase their shares. This program started in February 2000 and continues to be available. The loans bear interest at a rate of 6.45% and are secured by CMS common shares. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress Microsystems or Cypress Semiconductor, or three years from the grant date of the loan. At December 31, 2000, amounts receivable under this program totaled \$0.1 million.

In May 2000, a similar offering was made to the employees of Alation just prior to merger. The program offered loans bearing interest at an annual rate of 7.0% to enable the employees to exercise their options to purchase Alation stock. Upon merger, using the pooling of interests method, all Alation shares were converted into Cypress common shares. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress, or a Cypress subsidiary, or three years from the grant date of the loan. At December 31, 2000, amounts receivable under this program totaled \$0.2 million.

In March 1999, Cypress announced a program whereby all U.S. employees were offered loans to facilitate the exercise of vested stock options. Under the terms of the program, only options which were vested as of March 1, 1999 and whose exercise price was less than or equal to \$9.75 could qualify for a loan. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress or 3 years from the grant date of the loan. The loans bear interest at a rate of 4.71% and are secured by Cypress common shares. At December 31, 2000, amounts receivable under this program totaled \$1.8 million.

In 1998, Cypress retired a total of \$15.0 million principal of its \$175.0 million, 6.0% Convertible Subordinated Notes which were issued in September 1997, for \$12.9 million, resulting in a pre-tax net gain of \$1.7 million. The net gain was recorded as other income. The remaining outstanding notes were called by Cypress effective October 2, 2000. A portion of the proceeds from the 6.0% Notes were used to repay the \$49.0 million balance outstanding under a revolving credit facility, acquire equipment, purchase a building in Woodinville, Washington and for stock repurchases in 1998.

In fiscal years 1997 and 1998, the Board of Directors authorized the repurchase of up to 14.0 million shares of Cypress's common stock. Through January 3, 1999, 8.1 million shares had been repurchased under this entire program for \$67.5 million. On February 25, 1999, the Board of Directors terminated the stock repurchase program. The unsold repurchased shares were used for option exercises under Cypress's 1994 Stock Option Plan and stock purchases under the Employee Stock Purchase Plan. During 1998, Cypress reissued 1.8 million shares of common stock under such

plans. During fiscal 1999, Cypress reissued a total of 8.3 million shares in relation to the stock offering described above and in conjunction with the 1994 Stock Option Plan and Employee Stock Purchase Plan. Such shares had been repurchased under the 1997/1998 plan and repurchase programs prior to 1997.

In 1994 and 1995, Cypress entered into two operating lease agreements with respect to its office and manufacturing facilities in San Jose, which expired in 1999, and Minnesota, which expires in 2004. In October 1999, Cypress entered into a new operating lease agreement for the San Jose office, which expires in 2004 with the same lessor for the same facilities. In April 1996, Cypress entered into an additional lease agreement, which expires in 2001 for two office facilities in San Jose. These agreements require that Cypress maintain a specific level of restricted cash or investments to serve as collateral for these leases and maintain compliance with certain financial covenants. Cypress's restricted investment balance as of December 31, 2000 and January 2, 2000 was \$60.7 million and \$61.2 million, respectively, and is recorded as other assets on the Balance Sheet. Cypress was in compliance with its covenants at December 31, 2000.

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

Subsequent Events

On March 22, 2001, Cypress completed an agreement with a lessor in relation to the construction of an approximate 111,000 square foot general purpose office building on the northeast lot of Champion Court, adjacent to the current executive offices. The arrangement will include a 34.5-year ground lease granted by Cypress to the lessor. The lessor will construct the building on the lot, with Cypress acting as its construction agent. The agreement allows for an eighteen-month construction period followed by a five-year lease term. During the lease term, payments due vary based on LIBOR, plus a spread based on a total lease balance of up to approximately \$21 million. Cypress is obligated to provide collateral equivalent to 86.2% of the then existing lease balance. At the end of the lease term, Cypress shall have the option to purchase the building.

On March 22, 2001, Cypress employees were offered the opportunity to exchange their stock options for a promise to issue new options. The offer to exchange options expires on April 4, 2001. The new options will be granted on October 8, 2001 with an exercise price equal to the NYSE closing price on the same day. Any grant issued prior to March 20, 2001 will be eligible for this program. The new option will be issued with 12 months vested as of October 8, 2001 and the balance will vest 1/60th per month regardless of how many options were vested at the time of the cancellation election.

On March 16, 2001, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress's outstanding common stock, bringing the total shares authorized in the repurchase program to 15 million. Since December 31, 2000, 1.0 million shares were repurchased at an average cost of \$21.01 per share. In conjunction with the stock repurchase, the Board of Directors authorized the additional sale of put warrants. Cypress sold put warrants through private placements for which Cypress received \$8.1 million between January 1, 2001 and March 22, 2001. Cypress had a maximum potential obligation to purchase 3.3 million shares of its common stock at an aggregate price of \$68.1 million as of March 22, 2001. The put warrants have various expiration periods through October 2001. Cypress has the right to settle the put warrants with cash or settle the difference between the exercise price and the fair market value at the exercise date with stock or cash. No amount was classified out of stockholders' equity in the accompanying consolidated balance sheet.

On February 23, 2001, Cypress completed its acquisition of International Microcircuits Inc. ("IMI"), a company specializing in timing technology integrated circuits. IMI's product portfolio includes programmable clocks, clock distribution products, electromagnetic interference suppression devices and application-specific products. Cypress paid approximately \$126 million in cash and options to acquire Cypress common stock. Cypress will account for the transaction by the purchase accounting method.

On February 5, 2001, Cypress announced the signing of a definitive agreement to acquire HiBand Semiconductors, Inc., a provider of mixed-signal integrated circuits for high-speed communications markets. The acquisition, which has an estimated value of \$32 million, is expected to close

during March 2001 and will be accounted for using the purchase accounting method. Closing is subject to regulatory approvals and other customary conditions.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 133, “Accounting for Derivatives and Hedging Activities.” SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133,” which deferred the effective date until the first fiscal year beginning after June 15, 2000. In June 2000, the FASB issued SFAS Statement No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of SFAS No. 133.” SFAS No. 138 amends certain terms and conditions of SFAS No. 133. SFAS No. 133 requires that all derivative instruments be recognized at fair value as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Cypress will adopt SFAS No. 133, as amended, in its first quarter of 2001. The adoption of SFAS No. 133 will not have a material impact on its financial statements.

Factors Affecting Future Results

Quantitative and Qualitative Disclosure About Market Risk

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

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

A majority of Cypress’s revenue and capital spending is transacted in U.S. dollars. However, Cypress does enter into these transactions in other currencies, primarily Japanese yen and certain other European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, Cypress has established revenue and balance sheet hedging programs. Cypress’s hedging programs reduce, but do not always eliminate, the impact of foreign currency rate movements. Based on Cypress’s overall currency rate exposure at December 31, 2000, a near-term 10% appreciation or depreciation in the U.S. dollar would have an immaterial effect on Cypress’s financial position, results of operations and cash flows over the next fiscal year.

All of the potential changes noted above are based on sensitivity analyses performed on Cypress’s balances as of December 31, 2000.

Consolidated Balance Sheets

(In thousands, except per-share amounts)

	Year Ended	
	December 31, 2000	January 2, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 551,025	\$ 159,088
Short-term investments	<u>333,576</u>	<u>121,859</u>
Total cash, cash equivalents and short-term investments	884,601	280,947
Accounts receivable, net	193,525	104,143
Inventories	104,935	98,786
Other current assets	99,725	78,117
Total current assets	1,282,786	561,993
Property, plant and equipment, net	571,475	358,206
Other assets	507,493	226,759
Total assets	\$ 2,361,754	\$ 1,146,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 95,735	\$ 98,378
Accrued compensation and employee benefits	61,379	32,485
Other current liabilities	60,108	29,119
Deferred income on sales to distributors	34,084	21,061
Income taxes payable	48,121	20,311
Total current liabilities	299,427	201,354
Convertible subordinated notes	570,500	160,000
Deferred income taxes	103,604	56,100
Other long-term liabilities	60,555	10,884
Total liabilities	1,034,086	428,338
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value, 650,000 and 250,000 shares authorized; 136,895 and 119,019 issued; 125,659 and 114,111 outstanding at December 31, 2000 and January 2, 2000	1,369	1,191
Additional paid-in-capital	1,010,357	533,137
Notes receivable from stockholders	(2,146)	(8,186)
Deferred compensation	(10,360)	(1,932)
Retained earnings	<u>513,649</u>	<u>236,341</u>
	1,512,869	760,551
Less: shares of common stock held in treasury, at cost; 11,236 shares and 4,980 shares at December 31, 2000 and January 2, 2000	<u>(185,201)</u>	<u>(41,931)</u>
Total stockholders' equity	1,327,668	718,620
Total liabilities and stockholders' equity	\$ 2,361,754	\$ 1,146,958

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

Consolidated Statements of Operations

(In thousands, except per-share amounts)

Year Ended

	December 31, 2000	January 2, 2000	January 3, 1999
Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915
Cost of revenues	564,839	408,885	429,599
Research and development	184,471	136,858	116,871
Selling, general and administrative	153,909	113,601	97,267
Acquisition and other non-recurring costs	56,214	37,902	—
Restructuring	(485)	(3,811)	60,737
Total operating costs and expenses	958,948	693,435	704,474
Operating income (loss)	328,839	51,607	(115,559)
Interest expense	(23,633)	(9,643)	(11,276)
Interest income and other, net	64,964	53,205	14,133
Income (loss) before income taxes	370,170	95,169	(112,702)
(Provision) benefit for income taxes	(92,862)	(7,039)	11,108
Net income (loss)	\$ 277,308	\$ 88,130	\$ (101,594)
Net income (loss) per share:			
Basic	\$ 2.29	\$ 0.81	\$ (0.97)
Diluted	\$ 2.03	\$ 0.76	\$ (0.97)
Weighted average common and common equivalent shares outstanding:			
Basic	121,126	108,156	105,238
Diluted	144,228	115,527	105,238

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

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable From Stockholders	Deferred Compensation	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balances at December 29, 1997	106,139	\$ 1,136	\$ 466,053	\$ (4)	\$ (506)	\$ 283,302	\$ (91,338)	\$ 658,643
Cypress (ICW) activities for the quarter ended March 28, 1999	—	—	—	—	—	1,622	—	1,622
Re-issuance of treasury shares under employee stock plans and other	2,287	5	1,347	4	—	(7,661)	19,767	13,462
Premiums received from put option issuances	—	—	6,620	—	—	—	—	6,620
Conversion of note payable into common stock	—	—	225	—	—	—	—	225
Repurchase of common stock under stock repurchase program	(7,607)	—	—	—	—	—	(62,274)	(62,274)
Compensation expense to outside consultants	—	—	14	—	—	—	—	14
Provision for and amortization of deferred compensation	—	—	2,562	—	(1,455)	—	—	1,107
Net loss for the year	—	—	—	—	—	(101,594)	—	(101,594)
Balances at January 3, 1999	100,819	1,141	476,821	—	(1,961)	175,669	(133,845)	517,825
Cypress (Galvantech) activities for the quarter ended March 31, 1999	—	—	—	—	—	232	—	232
Re-issuance of treasury shares and issuance of common stock under employee stock plans and other	13,292	50	40,265	—	—	(27,690)	91,914	104,539
Tax benefit resulting from stock option transactions	—	—	13,772	—	—	—	—	13,772
Notes receivable from stockholders	—	—	—	(8,186)	—	—	—	(8,186)
Conversion of note payable into common stock	—	—	300	—	—	—	—	300
Compensation expense to outside consultants	—	—	234	—	—	—	—	234
Provision for and amortization of deferred compensation	—	—	1,745	—	29	—	—	1,774
Net income for the year	—	—	—	—	—	88,130	—	88,130
Balances at January 2, 2000	114,111	1,191	533,137	(8,186)	(1,932)	236,341	(41,931)	718,620
Issuance of common stock in relation to acquisitions	3,513	35	171,337	—	—	—	—	171,372
Repurchase of common stock under stock repurchase program	(6,256)	—	—	—	—	—	(143,270)	(143,270)
Issuance of common stock under employee stock plans and other	7,519	75	67,891	—	—	—	—	67,966
Issuance of common stock due to conversion of notes	6,772	68	159,918	—	—	—	—	159,986
Provision for and amortization of deferred compensation	—	—	15,053	—	(8,428)	—	—	6,625
Notes receivable from stockholders	—	—	—	6,040	—	—	—	6,040
Premiums received from issuance of put options	—	—	6,288	—	—	—	—	6,288
Tax benefit resulting from stock option transactions	—	—	56,733	—	—	—	—	56,733
Net income for the year	—	—	—	—	—	277,308	—	277,308
Balances at December 31, 2000	125,659	\$ 1,369	\$1,010,357	\$ (2,146)	\$ (10,360)	\$ 513,649	\$ (185,201)	\$ 1,327,668

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

Consolidated Statements of Cash Flows

(In thousands)

Year Ended

	December 31, 2000	January 2, 2000	January 3, 1999
Cash flow from operating activities:			
Net income (loss)	\$ 277,308	\$ 88,130	\$ (101,594)
Adjustments to reconcile net income (loss) to net cash generated by operating activities:			
Depreciation and amortization	145,411	108,886	117,204
Acquired in-process research and development	32,425	4,019	—
Non-cash interest and amortization of debt issuance costs	5,293	1,034	1,034
Net gain on early retirement of debt	—	—	(1,734)
Loss on write down of assets	—	11,047	—
Deferred gain on sale of assets	—	(3,959)	—
Gain on sales of assets	(5,000)	(36,237)	—
Restructuring costs (credits) and other non-recurring costs	1,479	(3,811)	69,564
Issuance of stock for services	—	—	14
Tax benefit resulting from stock option transactions	56,733	13,722	—
Deferred income taxes	5,434	(9,971)	(1,220)
Changes in operating assets and liabilities:			
Receivables, net	(89,166)	(30,416)	8,516
Inventories, net	(7,162)	(30,149)	18,276
Other assets	(14,367)	(13,568)	36,423
Accounts payable, accrued and other liabilities	71,876	58,676	(17,749)
Deferred income	13,023	7,221	2,985
Income taxes payable	27,810	(7,002)	(21,152)
Net cash flow generated from operating activities	521,097	157,622	110,567
Cash flow from investing activities:			
Purchase of investments	(492,855)	(218,383)	(113,753)
Notes receivable	—	61	(147)
Sale or maturities of investments	181,018	66,872	127,195
Acquisition of property, plant and equipment	(338,740)	(114,364)	(83,570)
Acquisition of Anchor and Arcus	—	(24,839)	—
Acquisition of technology rights	—	(4,700)	—
Acquisition of product rights and equity interest from Altera	—	(12,187)	—
Proceeds from sale of investment	7,500	36,237	—
Proceeds from sale of equipment	325	16,179	6,551
Net cash flow used for investing activities	(642,752)	(255,124)	(63,724)
Cash flow from financing activities:			
Borrowing from (repayment of) notes payable and short-term debt	(1,099)	(2,154)	(4,551)
Issuance of convertible subordinated notes, net of issuance costs	554,812	—	—
Loss on early retirement of debt	—	—	(12,916)
Repurchase of common stock	(143,270)	—	(62,274)
Re-issuance of treasury shares and issuance of common stock	63,538	116,982	13,555
(Issuance) repayment of notes to stockholders, net	6,040	(8,186)	—
Premiums received from put options	6,288	—	6,620
Other liabilities, including minority interest	18,665	897	(697)
Net cash flow generated (used) for financing activities	504,974	107,539	(60,263)
Net change in cash during the period due to mergers and acquisitions	8,618	(2,339)	3,434
Net increase (decrease) in cash and cash equivalents	391,937	7,698	(9,986)
Cash and cash equivalents, beginning of year	159,088	151,390	161,376
Cash and cash equivalents, end of year	\$ 551,025	\$ 159,088	\$ 151,390
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$ 15,734	\$ 9,626	\$ 10,092
Income taxes	\$ 15,252	\$ 5,467	\$ 700
Non-cash flow items:			
Common stock and options issued for acquisitions	\$ 186,360	\$ 6,200	\$ —

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Cypress — Cypress Semiconductor Corporation (“Cypress”) designs, develops, manufactures and markets a broad line of high-performance digital and mixed-signal integrated circuits for a range of markets, including data communications, telecommunications, computation, consumer products and industrial control. With a focus on emerging communications applications, Cypress's product portfolios include: networking-optimized and micro-power static RAMs; high-bandwidth multi-port and FIFO memories; high-density programmable logic devices; timing technology for PCs and other digital systems; and controllers for Universal Serial Bus (“USB”).

Cypress's operations outside of the U.S. include its test and assembly plant in the Philippines and several sales offices and design centers located in various parts of the world. Revenues to international customers were 49%, 49% and 43% of total revenues in 2000, 1999 and 1998, respectively.

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

Fiscal Year — The Cypress fiscal year ends on the Sunday closest to December 31. Fiscal years 2000, 1999 and 1998 ended December 31, 2000, January 2, 2000, and January 3, 1999, respectively. Fiscal years 2000 and 1999 were 52-week years while fiscal year 1998 was a 53-week year. Operating results for the additional week were considered immaterial to Cypress consolidated operating results for the year ended January 3, 1999.

Management Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, although such differences are not expected to be material to the financial statements.

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

Fair Value of Financial Instruments — For certain of Cypress's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. The carrying value of Cypress's investments approximate their fair value based on market information. At December 31, 2000, the estimated fair value of the Convertible Subordinated Notes was \$421.3 million.

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

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

Investments — All Cypress investments are classified as available-for-sale. Investments in available-for-sale securities are reported at fair value with unrealized gains and losses, net of related tax, as a component of stockholders' equity. Unrealized gains and losses, net of related taxes, were not material for the year ended December 31, 2000 or cumulatively.

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

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

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

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

Pre-operating Costs — Prior to fiscal year 1998 incremental costs incurred in connection with developing major production capability at new manufacturing plants, including depreciation, amortization and cost of qualification of equipment and production processes were capitalized and amortized over five years. Pre-operating costs totaling \$3.8 million, net of accumulated amortization were included in other assets at December 29, 1997. Such costs were being amortized over five years at a rate based on estimated units to be manufactured during that period. In fiscal 1998, these costs were written off. Pre-operating costs after 1998 have been expensed as incurred.

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

Revenue Recognition — In December 1999, the staff of the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 101 (“SAB 101”) “Revenue Recognition in Financial Statements,” as amended by SAB 101A and 101B, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Adoption of SAB 101 did not have a material effect on Cypress’s results.

Revenues from product sales are generally recognized when persuasive evidence of an arrangement exists, the price is fixed or determined, collection is reasonably assured and delivery of product has occurred. Reserves are provided for estimated returns. A portion of Cypress’s sales are made to distributors under agreements which allow certain rights of return and price protection on products unsold. Accordingly, Cypress defers recognition of revenues and profit on such sales until these distributors resell the products.

Cypress sells to certain international distributors with a provision for price adjustments on certain products without a right of return. Cypress reserves for all anticipated price adjustments, and revenues are recognized upon shipment.

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

Earnings Per Share — Basic Earnings Per Share (“EPS”) is computed using weighted average common shares outstanding. Diluted EPS is computed using weighted average common shares outstanding plus any potentially dilutive securities, except when their effect is anti-dilutive. Dilutive securities include stock options and convertible debt.

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

Hedging — To protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange, Cypress has established revenue and balance sheet hedging programs. These hedging programs reduce, but do not always eliminate, the impact of foreign currency rate movements. It is Cypress’s general policy to hedge using spot and forward contracts to cover at least eighty percent (80%) of net foreign exchange risks. Cypress also has hedging programs to cover known exposure for capital spending contracts denominated in foreign currencies.

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

Cypress sells its products to original equipment manufacturers and distributors throughout the world. Cypress performs ongoing credit evaluations of its customers’ financial condition whenever deemed necessary and generally does not require collateral. Cypress maintains an allowance for doubtful accounts receivable based upon the expected collectibility of all accounts receivable. No single customer represented greater than 10% of accounts receivable at December 31, 2000. Sales to Motorola, Inc. accounted for 10.9% of total revenues in fiscal 2000. Sales to two distributors accounted for greater than 10% of total revenues in fiscal 2000; sales to one distributor accounted for greater than 10% of total revenues in 1999 and 1998. Sales to Arrow Electronics, Inc. were 18.0%, 19.1% and 29.4% in fiscal 2000, 1999 and 1998, respectively. Sales to Future Electronics Corporation were 14.1% of total revenues in fiscal 2000. Write-offs of accounts receivable have been immaterial during the preceding three fiscal years.

Accounting for Stock-Based Compensation — Cypress accounts for its stock option plans and its employee stock purchase plan in accordance with provisions of the Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and complies with the disclosure provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation.” If

there is any compensation cost under the rules of APB 25, the expense is amortized using an accelerated method prescribed under the rules of Financial Accounting Standards Board (“FASB”) Interpretation No. 28. In accordance with SFAS No. 123, Cypress provides additional pro forma disclosures in Note 9. On July 1, 2000, Cypress adopted FASB Interpretation No. 44, which addresses a number of accounting practice issues relating to the application of APB 25. The interpretation was generally effective on July 1, 2000, but in some circumstances applied to transactions that occurred prior to the effective date.

Comprehensive Income — In 1998, Cypress adopted SFAS No. 130, “Reporting Comprehensive Income.” Comprehensive income is defined as the change in equity of a company during a period from non-owner sources. Cypress did not have a material difference between net income and comprehensive income for the years presented.

Recent Accounting Pronouncements — In June 1998, the FASB issued SFAS No. 133, “Accounting for Derivatives and Hedging Activities.” SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In July 1999, the FASB issued SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133,” which deferred the effective date until the first fiscal year beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of SFAS 133.” SFAS No. 138 amends certain terms and conditions of SFAS No. 133. SFAS No. 133 requires that all derivative instruments be recognized at fair value as either assets or liabilities in the statement of financial position. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. Cypress will adopt SFAS No. 133, as amended, in its first quarter of 2001. The adoption of SFAS No. 133 will not have a material impact on its financial statements.

Note 2: Balance Sheet Components

Available-For-Sale Securities

(In thousands)	Year Ended	
	December 31, 2000	January 2, 2000
Corporate debt securities	\$ 515,352	\$ 175,510
Federal, state and municipal obligations	117,336	110,307
Money markets	425,359	69,755
Other	14,089	13,720
Total available-for-sale securities	\$ 1,072,136	\$ 369,292

At December 31, 2000 and January 2, 2000, the net unrealized holding gains and losses on securities were immaterial. The securities at December 31, 2000 and January 2, 2000 are shown by contractual maturity below.

(In thousands)	December 31, 2000	
	December 31, 2000	January 2, 2000
Due in one year or less	\$ 860,692	\$ 257,968
Due after one year through two years	211,444	111,324
Total available-for-sale securities	\$ 1,072,136	\$ 369,292

Accounts Receivable, Net

(In thousands)	December 31, 2000	
	December 31, 2000	January 2, 2000
Accounts receivable, gross	\$ 199,730	\$ 107,614
Allowance for doubtful accounts and customer returns	(6,205)	(3,471)
Accounts receivable, net	\$ 193,525	\$ 104,143

Inventories

(In thousands)	December 31, 2000	
	December 31, 2000	January 2, 2000
Raw materials	\$ 11,387	\$ 13,360
Work-in-process	63,200	49,328
Finished goods	30,348	36,098
Inventories	\$ 104,935	\$ 98,786

Property, Plant and Equipment, Net

(In thousands)

	Year Ended	
	December 31, 2000	January 2, 2000
Land	\$ 14,448	\$ 13,829
Equipment	984,395	735,493
Buildings and leasehold improvements	152,606	101,998
Furniture and fixtures	10,046	8,499
Total property, plant and equipment	1,161,495	859,819
Accumulated depreciation and amortization	(590,020)	(501,613)
Property, plant and equipment, net	\$ 571,475	\$ 358,206

Other Assets

(In thousands)

	December 31, 2000	January 2, 2000
Restricted investments	\$ 60,698	\$ 61,198
Long-term investments	211,444	111,324
Intangible assets and goodwill	214,637	43,721
Other	20,714	10,516
Other assets	\$ 507,493	\$ 226,759

Other Current Liabilities

(In thousands)

	December 31, 2000	January 2, 2000
Customer advances	\$ 20,159	\$ —
Accrued interest payable	10,305	2,400
Rep commissions	7,301	3,031
Accrued royalties	4,007	2,913
Restructuring reserve	—	2,313
Other	18,336	18,462
Other current liabilities	\$ 60,108	\$ 29,119

Note 3: Mergers Using Pooling of Interests

Merger with Alation Systems, Incorporated

On May 24, 2000, Cypress completed a merger with Alation Systems, Inc. (“Alation”), which was accounted for as a pooling of interests. Cypress issued 0.5 million shares of its common stock plus options in exchange for all outstanding stock and options of Alation. These consolidated financial statements and the notes to the consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and Alation were different, and Alation has changed its fiscal periods to coincide with that of Cypress. Cypress’s consolidated balance sheets as of January 2, 2000 and January 3, 1999 have been combined with Alation’s consolidated balance sheets as of December 31, 1999 and December 31, 1998, respectively. For the purpose of the consolidated statements of operations for the periods ended January 2, 2000 and January 3, 1999, Cypress’s statements of operations have been combined with Alation’s statements of operations for the periods ended December 31, 1999 and December 31, 1998, respectively.

During the quarter ended July 2, 2000, Cypress recorded merger-related costs of \$1.4 million related to the acquisition of Alation. These charges, which consist primarily of non-cash deferred compensation charges, legal and accounting, have been included under acquisition and other non-recurring costs in the consolidated statements of operations.

Merger with Galvantech, Incorporated

On March 2, 2000, Cypress completed a merger with Galvantech, Inc. and its subsidiaries (“Galvantech”), which was accounted for as a pooling of interests. Cypress issued 3.0 million shares of its common stock plus options in exchange for all outstanding stock and options of Galvantech. These consolidated financial statements and the notes to the consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and Galvantech were different, and Galvantech has changed its fiscal periods to coincide with that of Cypress. Cypress’s consolidated balance sheets as of April 2, 2000 and January 2, 2000 have been combined with Galvantech’s consolidated balance sheets as of April 2, 2000 and December 31, 1999, respectively. For the purpose of the consolidated statements of operations for the periods ended April 2, 2000 and April 4, 1999, Cypress’s statements of operations have been combined with Galvantech’s statements of operations for the three-month periods ended April 2, 2000 and March 31, 1999, respectively. As a result of

combining Cypress's and Galvantech's financial statements for the fiscal years ended January 2, 2000 and January 3, 1999, the results of operations of Galvantech for the quarter ended March 31, 1999 were included in the consolidated statements of operations of both 1998 and 1999. Therefore, the balance sheet and cash and cash equivalents for the quarter ended December 31, 1998 and March 31, 1999 are the same.

During the quarter ended April 2, 2000, Cypress recorded merger-related costs of \$1.8 million related to the acquisition of Galvantech. These charges, which consist primarily of legal, accounting and investment banking fees, have been included under acquisition and other non-recurring costs in the consolidated statements of operations.

Merger with IC WORKS Incorporated

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

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

Combined Financial Statements of Cypress with Merged Companies

The results of operations previously reported by the separate companies prior to the mergers and included in the results of operations for the fiscal years ended January 2, 2000 and January 3, 1999 are presented below.

(In thousands)

Year ended January 2, 2000	Cypress	Galvantech	Alation	Total
Revenue	\$ 705,487	\$ 39,316	\$ 239	\$ 745,042
Net income (loss)	\$ 91,054	\$ 908	\$ (3,832)	\$ 88,130

(In thousands)

Year ended January 3, 1999	Cypress	IC WORKS	Galvantech	Alation	Total
Revenue	\$ 486,842	\$ 68,049	\$ 33,651	\$ 373	\$ 588,915
Net income (loss)	\$ (110,848)	\$ 5,930	\$ 5,068	\$ (1,744)	\$ (101,594)

Note 4: Acquisitions Using Purchase Accounting

Acquisition of Silicon Light Machines

On August 30, 2000, Cypress acquired all of the outstanding capital stock of Silicon Light Machines ("SLM") that Cypress did not previously own. SLM is a supplier of microelectromechanical systems ("MEMS") technology applicable to fiber-optic networks and other applications. The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated balance sheet as of August 30, 2000, the effective date of the purchase. There were no significant differences between the accounting policies of Cypress and SLM.

Cypress acquired SLM for a total consideration of \$164.0 million, including \$161.2 million in stock, an existing \$2.2 million investment and direct acquisition costs of \$0.6 million for legal and accounting fees. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on appraisals prepared by an independent appraisal firm using estimates and projections provided by management. The asset values estimates are as follows:

(In thousands)

Fair value of tangible net assets	\$ 17,017
In-process research and development	30,400
Current technology	107,200
Assembled workforce	4,700
Deferred tax liability	(44,760)
Excess of purchase price over identifiable net assets acquired	49,456
Total	\$ 164,013

The valuation method used to value the in-process technology of SLM is a form of discounted cash flow method commonly known as the "percentage of completion" approach whereby the cash flow derived from the technology is multiplied by the percentage of completion of the in-process technology. This approach is a widely recognized appraisal method and is commonly used to value technology assets. The value of the in-

process technology of SLM is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 30.0%, which Cypress believes was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying the elapsed time invested in the project as a ratio of the total time required to complete the project to technical and commercial feasibility. Schedules were based on management's estimate of tasks completed and the tasks to be completed to bring the project to technical and commercial feasibility. As of December 31, 2000, the actual development timelines and costs are in line with management's estimates.

The value of current technology was determined by estimating the future cash flows to be derived from products based on existing commercially feasible technologies at the date of the acquisition and discounting associated cash flow using discount rates of 10.0% and 27.0% (depending on the products), which Cypress believes was appropriate for the business risks inherent in manufacturing and marketing these products. Factors considered in estimating the future cash flow to be derived from the existing technology include risks related to the characteristics and applications of the technology, existing and future markets, and assessment of the age of the technology within its life span.

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

The amounts allocated to current technology, assembled workforce and residual goodwill are being amortized over their respective estimated useful lives of between four and seven years using the straight-line method.

Summarized below are the unaudited pro forma results of Cypress as though SLM had been acquired at January 4, 1999. Adjustments have been made for the estimated increases in amortization related to the purchased core technology, completed products, workforce, amortization of stock-based compensation and other appropriate pro forma adjustments.

(In thousands, except per share amount)	Year Ended	
	December 31, 2000	January 2, 2000
Total revenue	\$ 1,291,106	\$ 744,872
Net income	\$ 296,015	\$ 30,021
Net income per share		
Basic	\$ 2.44	\$ 0.28
Diluted	\$ 2.24	\$ 0.26

The above amounts are based upon certain assumptions and estimates, which we believe are reasonable and do not reflect any benefit from economies of scale, which might be achieved from combined operations. The pro forma financial information presented above is not necessarily indicative of either the results of operations that would have occurred had the acquisition taken place at the beginning of fiscal 1999 or of future results of operations of the combined companies. The charge for purchased in-process research and development has not been included in the pro forma results above because it is non-recurring and directly related to the acquisition.

Acquisition of RadioCom Corporation

On June 29, 2000, Cypress acquired all of the outstanding capital stock of RadioCom Corporation ("RadioCom"). RadioCom specializes in the design and development of semiconductor radio frequency ("RF") integrated circuits. The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated balance sheet as of June 29, 2000, the effective date of the purchase. The results of operations of RadioCom from June 29, 2000 through Cypress's quarter ended July 2, 2000 were not significant and were therefore excluded from that quarter's reported results. There are no significant differences between the accounting policies of Cypress and RadioCom.

Cypress acquired RadioCom for a total consideration of \$10.2 million in stock. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on appraisals prepared by management. The asset value estimates are as follows:

(In thousands)	
Fair value of tangible net assets	\$ 51
In-process research and development	2,025
Current technology	1,752
Assembled workforce	802
Excess of purchase price over identifiable net assets acquired	5,584
Total	\$ 10,214

The valuation method used to value the in-process technology of RadioCom is the “percentage of completion” approach. The value of the in-process technology of RadioCom is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 20.0%, which Cypress believes was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying milestones of completed project steps as compared to the remaining milestones to be completed to bring the project to technical and commercial feasibility. Milestones were based on management’s estimate of tasks completed, value added and degree of difficulty of the portion of the project completed as of the acquisition date, in comparison with the tasks to be completed to bring the project to technical and commercial feasibility. As of December 31, 2000, the actual development timelines and costs are in line with management’s estimates.

The value of current technology was determined by estimating the future cash flows to be derived from products based on existing commercially feasible technologies at the date of the acquisition and discounting associated cash flow using a discount rate of 35.0%, which Cypress believes was appropriate for the business risks inherent in manufacturing and marketing these products. Factors considered in estimating the future cash flow to be derived from the existing technology include risks related to the characteristics and applications of the technology, existing and future markets, and assessment of the age of the technology within its life span.

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

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

Acquisition of Arcus Technology Companies

On June 30, 1999, Cypress acquired all of the outstanding capital stock of Arcus Technology (USA), Inc. and the assets of Arcus Technology (India) Limited (referred to as “Arcus” on a combined basis). Arcus specializes in data communications technologies including dense wave multiplexing (which allows multiple signals to be transmitted over a single fiber optic cable) and “IP over SONET” (the technology used to code and decode Internet traffic to send it over the telephone system). The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress’s consolidated balance sheet as of and since June 30, 1999, the effective date of the purchase. There are no significant differences between the accounting policies of Cypress and Arcus. The results of operations of Arcus are included in Cypress’s consolidated results of operations during the second half of Cypress’s fiscal year 1999.

Cypress acquired Arcus for a total consideration of \$17.7 million, including cash of \$11.5 million and stock of \$6.2 million. Through December 31, 2000, Cypress paid \$10.5 million in cash and issued \$6.2 million in stock. Cypress incurred a one-time charge of \$2.0 million in fiscal 2000 due to the acceleration of contractual obligation. The remaining \$1.0 million in cash will be paid as certain performance milestones are reached. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed at the time of the acquisition based on independent appraisals and management estimates as follows:

(In thousands)

Fair value of tangible net assets	\$	391
In-process research and development		2,500
Current technology		4,400
Assembled workforce		1,600
Deferred compensation		5,553
Excess of purchase price over identifiable net assets acquired		3,264
Total	\$	17,708

The valuation method used to value the in-process technology of Arcus is the “percentage of completion” approach. The value of the in-process technology of Arcus is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 32.5%, which Cypress believes was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying milestones of completed project steps as compared to the remaining milestones to be completed to bring the project to technical and commercial feasibility. Milestones

were based on management's estimate of tasks completed, value added and degree of difficulty of the portion of the project completed as of the acquisition date, in comparison with the tasks to be completed to bring the project to technical and commercial feasibility. A deduction of 7.5% to 12.0% of expected future revenue was made in calculating future cash flows from in-process technology and attributed to previously existing technology.

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

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

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

Acquisition of Anchor Chips, Incorporated

On May 25, 1999, Cypress acquired all of the outstanding capital stock of Anchor Chips, Inc. ("Anchor"), a company that designs and markets micro-controller chips that support Universal Serial Bus applications. The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated balance sheet as of and since May 25, 1999, the effective date of the purchase. There are no significant differences between the accounting policies of Cypress and Anchor. The results of operations of Anchor were included in Cypress's consolidated results of operations as of and since the effective date of the purchase.

Cypress paid approximately \$15.0 million in cash. In addition, Cypress assumed net liabilities of approximately \$0.9 million. The total purchase consideration of \$15.9 million was allocated to the estimated fair value of assets acquired and liabilities assumed based on a valuation completed by management, as follows:

In thousands

Fair value of tangible net liabilities	\$ (919)
In-process research and development	1,519
Assembled workforce	1,320
Current technology	13,036
Total	\$ 14,956

The valuation method used to value the in-process technology of Anchor is the "percentage of completion" approach. The value of the in-process technology of Anchor is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 32.5%, which Cypress believes was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying milestones of completed project steps as compared to the remaining milestones to be completed to bring the project to technical and commercial feasibility. Milestones were based on management's estimate of tasks completed, value added and degree of difficulty of the portion of the project completed as of the acquisition date, in comparison with the tasks to be completed to bring the project to technical and commercial feasibility. A deduction of 7.5% to 12.0% of expected future revenue was made in calculating future cash flows from in-process technology and attributed to previously existing technology. As of December 31, 2000, the actual development timelines and costs are in line with management's estimates.

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

The value of current technology was determined by estimating the future cash flows to be derived from products based on existing commercially feasible technologies at the date of the acquisition and discounting associated cash flow using a discount rate of 25.0%, which Cypress believes was appropriate for the business risks inherent in manufacturing and marketing these products. Factors considered in estimating the future cash flow

to be derived from the existing technology include risks related to the characteristics and applications of the technology, existing and future markets, and assessment of the age of the technology within its life span.

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

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

Pro forma results of operations for Arcus, Anchor and RadioCom are not presented, as they are not materially different.

Note 5: Other Product Line Transactions

Sale of FCT Business

On February 25, 2000, Cypress sold its Fast CMOS Technology ("FCT") business including inventories, product software, all technical data and a license for the related intellectual property. Total proceeds from the sale were \$7.5 million and Cypress recorded a gain of \$5.0 million from the sale. In conjunction with this sale, Cypress entered into a supply agreement for the related existing inventories and future requirements, based on historical run rates. Cypress has continued to supply product through the end of fiscal 2000, and completed its obligations under the supply agreement during the fourth quarter of fiscal 2000. Revenues from FCT products were approximately 1% of 1999 revenues.

Acquisition from Altera

On October 5, 1999, Cypress announced that it had signed a definitive agreement with Altera Corporation ("Altera") to acquire Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas ("Fab 2") for approximately \$13.0 million in cash. The acquisition was accounted for as a purchase. In 1988, Altera licensed its MAX 5000 family of products to Cypress in consideration of manufacturing capacity. Altera later acquired a 17% equity interest in the Round Rock wafer fabrication facility. By acquiring Altera's equity interest in October 1999, Fab 2 is now 100% owned by Cypress.

Note 6: Acquisition, Restructuring and Other Non-Recurring Costs

2000 Acquisition and Other Non-Recurring Costs

During fiscal 2000, Cypress recorded acquisition and merger-related costs of \$56.2 million. In-process research and development costs were \$32.4 million. Amortization of intangible assets relating to current and prior year acquisitions totaled \$18.4 million. Transaction costs of \$3.4 million, which consist primarily of non-cash deferred compensation charges, legal, accounting and investment banking fees, were incurred during the fiscal year. Cypress incurred a one-time charge of \$2.0 million due to the acceleration of contractual obligations related to the Arcus acquisition.

1999 Acquisition, Restructuring and Other Non-Recurring Costs

During fiscal 1999, Cypress recorded a net \$34.1 million in restructuring, merger and acquisition, and other non-recurring costs. These one-time, non-recurring costs included a \$12.3 million write-off of a certain manufacturing asset that was not in service and was subsequently scrapped and an \$11.9 million one-time compensation charge associated with retention and performance payments to key employees in December 1999. In the first quarter of fiscal 1999, Cypress recorded one-time charges of \$3.7 million associated with the merger with IC Works. These charges were for investment banking fees and other professional fees. During fiscal 1999, Cypress recorded \$0.3 million in deferred compensation costs associated to the merger with Alation. Cypress also recorded \$8.8 million in costs associated with the purchases of Anchor and Arcus comprised of \$4.0 million for in-process technology, \$1.6 million for transaction costs and \$3.2 million in amortization of intangible assets. During the fourth quarter of fiscal 1999, Cypress acquired Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas. As part of the transaction, Cypress recorded intangible assets associated with the product rights and incurred \$0.3 million for the amortization of these intangibles. These non-recurring charges were offset by a reversal of \$3.0 million of the 1998 restructuring reserve. The reversed charges related to \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and completion of the Alphatec restructuring activities. Cypress also reversed \$0.5 million of the 1998 restructuring reserve for other fixed asset related charges that were no longer considered necessary. During fiscal 1999, Cypress

reversed \$0.7 million of the 1996 restructuring reserve related to fixed asset de-installation charges that were no longer required.

1998 Restructuring

During 1998, Cypress implemented an overall cost reduction plan and recorded a \$58.9 million restructuring charge related to the impairment of assets (\$46.4 million), reduction in work force (\$4.8 million) and other transaction costs (\$5.9 million). The restructuring entailed:

- The shutdown of Fab 3, located in Bloomington, Minnesota and consolidation of parts of Fab 3 operations with other operations of Cypress.
- The discontinuance of the 0.6 micron 256K static RAM production in Fab 2 located in Texas.
- The conversion of an existing research and development fab located in San Jose ("Fab 1") to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.
- The transfer of Cypress's test operations from its subcontractor, Alphatec, in Thailand to Cypress's production facility in the Philippines.

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

During the second quarter of 1998, in conjunction with the closure of Fab 3, Cypress established a reserve for \$1.4 million to cover severance costs associated with the reduction of work force at that location. This was based on the anticipated level of payments that would be made to personnel included in the work force reduction. As part of a review of inventory, it was noted that Cypress required an additional reserve of \$0.5 million to cover inventory that was written off. This related to a change in estimate regarding inventory that had been previously reserved.

The balance of the reserve at the beginning of fiscal 2000 was \$1.8 million. Restructuring activities have been substantially completed during fiscal 2000. The following table sets forth restructuring expense and charges taken against the reserve from the date the restructuring commenced through December 31, 2000.

(In thousands)

	1998 Restructuring Expense	Utilized	(Credits)	Balance December 31, 2000
Write-down of inventory ⁽¹⁾	\$ 3,250	\$ (3,250)	\$ —	\$ —
Severance and other employee related charges ⁽²⁾	5,334	(2,234)	(3,100)	—
Other fixed asset related charges ⁽¹⁾	3,030	(910)	(2,120)	—
Provision for phase-down and consolidation of manufacturing facilities ⁽¹⁾	976	(637)	(339)	—
Total	\$ 12,590	\$ (7,031)	\$ (5,559)	\$ —

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

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

During fiscal 1999, Cypress reversed \$3.7 million of previously provided restructuring costs. \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and consolidation of manufacturing facilities were reversed in conjunction with the completion of the Alphatec restructuring activities. \$0.6 million was reversed for other fixed asset related charges based on the determination that a portion of the fixed asset removal costs accrual would not be required. These reversals related to Cypress's 1998 restructuring activities. Cypress also reversed a \$0.7 million reserve for fixed asset installation costs related to its 1996 restructuring activities, which was no longer required.

Restructuring activities associated with Fabs 2 and 3 were completed in May and July 1998, respectively, consistent with Cypress's restructuring schedule except for the disposal of equipment. \$0.9 million of severance and other employee related charges were reversed at that time. Fab 1 restructuring was not completed in January 1999 as originally planned. Cypress subsequently initiated plans to convert its R&D wafer facility in San Jose to eight-inch capability; this conversion has now been completed. The Alphatec consolidation and transfer activity was completed in January 1999, one month later than originally planned.

In fiscal 1998, Cypress (ICW) recorded \$1.8 million related to the impairment of fixed assets.

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

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

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

1997 Restructuring Costs - Cypress (ICW)

During the fourth quarter of 1997, Cypress (ICW) made a decision to shut down its wafer fab located in San Jose. In connection with the shut down of the wafer fab, Cypress (ICW) recorded a restructuring charge of \$9.9 million related to the impairment of assets (\$3.9 million), non-cancelable operating lease commitments (\$3.6 million), costs associated with a reduction in work force (\$0.2 million) and other transaction costs (\$2.2 million). The other transaction costs related primarily to inventory write-offs, expenses incurred to remove and return leased equipment and brokerage and professional fees.

The following tables set forth charges taken against the reserve from the date the restructuring commenced through the completion of restructuring activities in the second quarter of fiscal 2000, respectively. The actual liquidation of substantially all of the impaired assets was completed in November 1998. The balance of the reserve remaining was reversed and taken as a restructuring credit in the second quarter of fiscal 2000 when it was determined that no outstanding commitments existed.

(In thousands)

	Balance January 2, 2000	Utilized	Credits	Ending Balance
Operating lease costs ⁽¹⁾	\$ 506	\$ (21)	\$ (485)	\$ —

(In thousands)

	1997 Restructuring Reserve	Utilized	Credits	Ending Balance
Operating lease costs ⁽¹⁾	\$ 3,615	\$ (3,130)	\$ (485)	\$ —
Severance and other employee related charges ⁽¹⁾	207	(207)	—	—
Transaction and other costs ⁽¹⁾	2,164	(2,164)	—	—
Total	\$ 5,986	\$ (5,501)	\$ (485)	\$ —

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

Note 7: Equity and Debt Transactions

On November 30, 2000, the Board of Directors of Cypress authorized the repurchase of 5 million shares of Cypress's outstanding common stock. On December 21, 2000, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress's outstanding common stock, bringing the total shares authorized in the repurchase program to 10 million. As of December 31, 2000, 6.3 million shares were repurchased at an average cost of \$22.90 per share. In conjunction with the stock repurchase program, the Board of Directors authorized the sale of up to 2.5 million put warrants. Cypress sold put warrants through private placements for which Cypress received \$6.3 million through December 31, 2000. Cypress had a maximum potential obligation to purchase 1.5 million shares of its common stock at an aggregate price of \$35.5 million as of December 31, 2000. The puts have various expiration periods from March 2001 through September 2001. Cypress has the right to settle the put warrants with cash or settle the difference between the exercise price and the fair market value at the exercise date with stock or cash. No amount was classified out of stockholders' equity in the accompanying consolidated balance sheet.

On January 31, 2000, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, which was effective February 8, 2000, as amended by a post-effective amendment thereto effective March 7, 2000, Cypress can, through January 2002, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$400.0 million. The shelf registration statement allows Cypress flexibility to raise funds from the offering of debt securities, common stock, preferred stock or a combination thereof, subject to market conditions and Cypress's

capital needs. At December 31, 2000, the balance remaining related to the shelf registration statement is \$112.5 million.

During fiscal 1999, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, Cypress could, through March 2001, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$300.0 million. The entire amount of this shelf registration statement has been used. Pursuant to the shelf registration, on March 29, 1999, Cypress sold 7.2 million shares of common stock, of which 2.5 million shares were sold by selling stockholders. Cypress received approximately \$33.8 million in proceeds net of issuance costs and Cypress did not receive any proceeds from the shares sold by the selling stockholders.

In March 1999, Cypress announced a program whereby all U.S. employees were offered loans to facilitate the exercise of vested stock options. Under the terms of the program, only options which were vested as of March 1, 1999 and whose exercise price was less than or equal to \$9.75 could qualify for a loan. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress or 3 years from the grant date of the loan. The loans bear interest and are secured by Cypress common shares. At December 31, 2000, loans receivable and accrued interest under this program totaled \$1.8 million. Amounts receivable under subsidiary loan programs were \$0.3 million at December 31, 2000.

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

Convertible Subordinated Notes

On September 7, 2000, Cypress called for the redemption of all its 6.0% Convertible Subordinated Notes ("Notes") due in 2002. The aggregate amount of principal outstanding at the time of the call was approximately \$160 million. Holders of the Notes could convert their Notes into shares of Cypress's common stock at a conversion rate of approximately 42.33 shares of stock per \$1,000 principal amount of the Notes. Substantially all of the Notes were converted prior to the redemption deadline of October 2, 2000 increasing the amount of common stock outstanding by 6.8 million shares. Unamortized bond issuance costs of \$1.9 million (pre-tax) were written off to interest income and other.

On June 26, 2000, Cypress completed a \$287.5 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 3.75% and an initial conversion premium of 27.0%. The notes are convertible into approximately 4.6 million shares of common stock and are callable by Cypress no earlier than July 5, 2003. Net proceeds were \$279.6 million, after issuance costs of \$7.9 million.

On January 19, 2000, Cypress completed a \$283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.0% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were \$275.2 million, after issuance costs of \$7.8 million.

In 1998, Cypress retired a total of \$15.0 million principal of its \$175.0 million, 6.0% Convertible Subordinated Notes ("Notes") for \$12.9 million, resulting in a pre-tax net gain of \$1.7 million. The gain was offset by the write-off of bond issuance costs of \$0.4 million (pre-tax). The net gain was recorded as interest income and other. The Notes were called on October 2, 2000.

Customer Advances

In October 2000, Cypress entered into a financing and supply agreement with ST Microelectronics, Inc. ("ST Micro"). The agreement called for ST Micro to provide funding to Cypress for the purpose of purchasing equipment and increasing fabrication capacity in order to supply ST Micro with product at future dates according to the supply agreement. ST Micro will maintain a security interest in the equipment purchased. As of December 31, 2000, Cypress has recorded the repayment obligation as a customer advance showing \$20.2 million in current liabilities and \$51.8 million as a long-term liability. The supply agreement calls for Cypress to make available to ST Micro a minimum quantity of wafers each year from 2001 through 2003.

Note 8: Earnings (Loss) Per Share

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

(In thousands, except per-share amounts)

	2000			1999			1998		
	Income	Shares	Per-Share Amount	Income	Shares	Per-Share Amount	(Loss)	Shares	Per-Share Amount
Basic EPS:									
Net income (loss)	\$ 277,308	121,126	<u>\$ 2.29</u>	\$ 88,130	108,156	<u>\$ 0.81</u>	\$(101,594)	105,238	<u>\$ (0.97)</u>
Effects of dilutive securities:									
6.0% Convertible notes	4,800	5,079		—	—		—	—	
4.0% Convertible notes	6,848	5,749		—	—		—	—	
3.75% Convertible notes	3,361	2,387		—	—		—	—	
7.0% Convertible notes	6	16		—	—		—	—	
Warrants	—	4		—	—		—	—	
Options	—	<u>9867</u>		—	<u>7,371</u>		—	—	
Diluted EPS:									
Net income (loss)	<u>\$ 292,323</u>	<u>144,228</u>	<u>\$ 2.03</u>	<u>\$ 88,130</u>	<u>115,527</u>	<u>\$ 0.76</u>	<u>\$(101,594)</u>	<u>105,238</u>	<u>\$ (0.97)</u>

At December 31, 2000, January 2, 2000 and January 3, 1999, options to purchase 6,278,000, 47,000 and 24,774,000 shares, respectively, of common stock were outstanding, but were excluded in the computation of diluted EPS, as their effect was anti-dilutive. Convertible debentures outstanding at January 2, 2000, and January 3, 1999 convertible to 6,772,000 and 6,772,000 shares, respectively, of common stock were also excluded from diluted EPS, as their effect was anti-dilutive.

Note 9: Common Stock Option and Other Employee Benefit Plans

Stock Option Plans

Cypress has two main stock option plans: the 1999 Stock Option Plan and the 1994 Stock Option Plan.

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

In 1994, Cypress adopted the 1994 Stock Option Plan, which replaced Cypress's 1985 Incentive Stock Option Plan and the 1988 Directors' Stock Option Plan ("Terminated Plans") with respect to future option grants. Under the terms of the 1994 Stock Option Plan, options may be granted to qualified employees, consultants, officers and directors of Cypress or its majority-owned subsidiaries. Options become exercisable over a vesting period as determined by the Board of Directors and expire over terms not exceeding twenty years from the date of grant. The option price for shares granted, under the 1994 Stock Option Plan, is typically equal to the fair market value of the common stock at the date of grant. The 1994 Stock Option Plan includes shares that remained available under the Terminated Plans and provides for an annual increase in shares available for issuance pursuant to incentive stock options equal to 4.5% of Cypress's outstanding common stock at the end of each fiscal year.

In December 2000, Cypress employees were offered the opportunity to exchange their stock options for a promise to issue new options six months and one day after the cancellation of the forfeited options. The new options will be granted on June 13, 2001, with an exercise price equal to the NYSE closing price on the same day. Any grant issued prior to December 2, 2000 was eligible for this program. The new option will be issued with 12 months vested as of June 13, 2001 and the balance will vest 1/60th per month, regardless of how many options were vested at the time of the cancellation election. 1,476 employees canceled 3,701,080 options with exercise prices between \$20.90 and \$54.20 per share.

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

The following table summarizes Cypress's stock option activity and related weighted average exercise price for each category for the years ended December 31, 2000, January 2, 2000 and January 3, 1999.

Shares Under Stock Option Plan

(In thousands, except per-share data)

	2000		1999		1998	
	Shares	Price	Shares	Price	Shares	Price
Options outstanding, beginning of year	25,712	\$ 11.40	26,810	\$ 8.25	24,096	\$ 9.23
Options authorized or reserved						
Options cancelled	(5,818)	32.51	(2,061)	9.81	(13,901)	11.21
Options granted	10,415	39.42	8,776	17.27	17,788	9.03
Options exercised	<u>(5,927)</u>	8.25	<u>(7,813)</u>	7.57	<u>(1,173)</u>	5.15
Options outstanding, end of year	<u>24,382</u>	16.93	<u>25,712</u>	11.40	<u>26,810</u>	8.25
Options exercisable at December 31, 2000	<u>9,134</u>	\$ 10.90				

Cypress has, in connection with the acquisitions of various companies, assumed the stock option plans of each acquired company. During fiscal 2000, a total of approximately 0.6 million shares of Cypress's common stock have been reserved for issuance under the assumed plans and the related options are included in the preceding table. At December 31, 2000, stock options available for grant were 2.3 million. The increase in options available for grants was 6.2 million under all option plans during fiscal 2000.

All options granted by the 1994 and 1999 Stock Option Plans were at an exercise price equal to the market value of Cypress's stock at the date of grant. The weighted average estimated fair value at the date of grant, as defined by SFAS 123, for options granted in 2000, 1999 and 1998, was \$33.17, \$8.96 and \$3.61 per option, respectively. The estimated grant date fair value is calculated using the Black-Scholes model. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from Cypress's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated grant date fair value.

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

	2000	1999	1998
Expected life	5 years	7 years	7 years
Risk-free interest rate	5.54%	5.76%	5.41%
Volatility	1.7701	0.5668	0.5467
Dividend yield	0.00%	0.00%	0.00%

Significant option groups outstanding as of December 31, 2000 and the related weighted average exercise price and contractual life information, are as follows:

(In thousands, except per-share amounts)

Range of Option Exercise Prices	Outstanding		Exercisable		Remaining Life (years)
	Shares	Price	Shares	Price	
\$ 0.03 — \$ 7.38	2,489	\$ 3.77	1,575	\$ 3.97	5.27
\$ 7.56 — \$ 9.31	4,256	\$ 8.62	1,936	\$ 8.57	6.79
\$ 9.63 — \$ 9.75	4,115	\$ 9.74	2,814	\$ 9.75	6.00
\$ 9.88 — \$16.00	2,958	\$11.46	1,359	\$11.27	6.75
\$16.19 — \$20.88	857	\$19.51	335	\$17.83	7.90
\$21.50 — \$21.50	3,215	\$21.50	670	\$21.50	8.75
\$22.13 — \$29.25	2,597	\$23.80	238	\$23.95	9.57
\$31.01 — \$36.69	2,875	\$35.51	82	\$34.94	9.75
<u>\$38.75 — \$54.19</u>	<u>1,020</u>	<u>\$42.06</u>	<u>125</u>	<u>\$39.89</u>	<u>9.38</u>
<u>\$ 0.03 — \$54.19</u>	<u>24,382</u>	<u>\$16.93</u>	<u>9,134</u>	<u>\$10.90</u>	<u>7.55</u>

Employee Qualified Stock Purchase Plan

In 1986, Cypress approved an Employee Qualified Stock Purchase Plan ("ESPP"), which allows eligible employees of Cypress and its subsidiaries to purchase shares of common stock through payroll deductions. The ESPP consists of consecutive 24-month offering periods composed of four 6-month exercise periods. The shares can be purchased at the lower of 85% of the fair market value of the common stock at the date of com-

mencement of this two-year offering period or at the last day of each 6-month exercise period. Purchases are limited to 10% of an employee's eligible compensation, subject to a maximum annual employee contribution limited to a \$25,000 market value (calculated as the employee's enrollment price multiplied by the number of purchased shares). Of the 13,030,746 shares authorized under the ESPP, 8,633,773 shares were issued through 2000 including 1,313,773 in 2000, 953,000 in 1999 and 890,000 in 1998.

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

	2000	1999	1998
Expected life	6 months	6 months	6 months
Risk-free interest rate	5.99%	5.94%	5.94%
Volatility	2.5507	0.5773	0.5773
Dividend yield	0.00%	0.00%	0.00%

The weighted average estimated grant date fair value, as defined by SFAS 123, of rights to purchase stock under the ESPP granted in 2000, 1999 and 1998 were \$27.31, \$7.50 and \$2.56 per share, respectively.

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

If Cypress had recorded compensation costs based on the estimated grant date fair value, as defined by SFAS 123, for awards granted under its stock option plans and its Employee Stock Purchase Plan, Cypress's pro forma net income (loss) and earnings per share for the years ended December 31, 2000, January 2, 2000 and January 3, 1999 would have been as follows:

(In thousands, except per-share amounts)

	2000	1999	1998
Pro forma net income (loss):			
Basic	\$ 202,242	\$ 55,424	\$ (132,668)
Diluted	\$ 217,256	\$ 55,424	\$ (132,668)
Pro forma net income (loss) per share:			
Basic	\$ 1.67	\$ 0.51	\$ (1.26)
Diluted	\$ 1.51	\$ 0.48	\$ (1.26)

The pro forma effect on net income (loss) and net income (loss) per share for 2000, 1999 and 1998 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants prior to 1995.

Deferred Compensation

Cypress recorded provisions for deferred compensation of approximately \$15.1 million, \$1.7 million and \$2.6 million for the difference between the grant or issuance price and the deemed fair value for financial reporting purposes of certain Cypress common stock options granted or common stock issued in fiscal year ended December 31, 2000, January 2, 2000 and January 3, 1999, respectively. These amounts are being amortized over the vesting period of the individual stock options or stock, generally a period of four to five years. Deferred compensation expense, which was recognized, totaled approximately \$6.6 million, \$1.8 million and \$1.1 million in fiscal years 2000, 1999 and 1998, respectively.

Other Employee Benefit Plans

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

Under the New Product Bonus Plan, which was adopted in 1997, all qualified employees are provided bonus payments based on Cypress attaining certain levels of new product revenue, plus attaining certain levels of profitability. In 2000, 1999 and 1998, \$14.3 million, \$6.9 million and \$0.7 million, respectively, were charged to operations in connection with the New Product Bonus Plan.

In 1994, a Key Employee Bonus Plan was established, which provides for bonus payments to selected employees upon achievement of certain Cypress and individual performance targets. In 2000, 1999 and 1998, \$15.1 million, \$4.9 million and \$4.1 million, respectively, were charged to operations in connection with this Plan. Employees eligible under the Key Employee Bonus Plan can elect to participate in the Key Employee Deferred Compensation Plan, which allows eligible employees to defer their salary, bonus and other related payments. Costs incurred by Cypress for the Key Employee Deferred Compensation Plan during fiscal years 2000, 1999 and 1998 were insignificant.

Note 10: Income Taxes

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

Components of the Provision for Income Taxes

(In thousands)	Year Ended		
	December 31, 2000	January 2, 2000	January 3, 1999
U.S. income (loss) before provision for taxes	\$ 278,679	\$ 62,890	\$ (138,228)
Foreign income (loss) before provision for taxes	91,491	32,279	25,526
Income (loss) before provision for taxes	370,170	95,169	(112,702)
Current tax expense:			
U.S. Federal	81,267	15,732	(10,811)
State and local	4,284	518	412
Foreign	1,877	760	511
Total current	87,428	17,010	(9,888)
Deferred tax expense (benefit):			
U.S. Federal	(169)	(9,971)	(4,549)
State and local	5,603	—	3,329
Total deferred	5,434	(9,971)	(1,220)
Total	\$ 92,862	\$ 7,039	\$ (11,108)

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

Tax Provision Difference

(In thousands)	Year Ended		
	December 31, 2000	January 2, 2000	January 3, 1999
Statutory rate	35%	35%	35%
Tax at U.S. statutory rate	\$ 129,559	\$ 33,309	\$ (39,446)
Foreign earnings	(30,145)	(11,443)	(4,153)
State income taxes, net of federal benefit	4,214	114	3,329
Tax credits	(5,500)	(9,568)	(3,700)
Prior year net operating losses, credits and other benefits not previously recognized	(26,180)	(8,968)	—
Future benefits not recognized	—	—	32,658
In-process R&D and amortization of intangibles	20,746	4,326	—
Other, net	168	(731)	204
Total	\$ 92,862	\$ 7,039	\$ (11,108)

The components of the net deferred tax assets at December 31, 2000 and January 2, 2000, under SFAS No. 109 were as follows:

(In thousands)	Year Ended	
	December 31, 2000	January 2, 2000
Deferred tax assets:		
Deferred income on sales to distributors	\$ 23,287	\$ 16,290
Reserves and accruals	33,934	48,731
Credits and net operating loss carryovers	17,644	44,263
Total deferred tax assets	74,865	109,284
Deferred tax liabilities:		
Excess of tax over book depreciation	(45,095)	(44,016)
Intangibles arising from acquisitions	(58,402)	(12,093)
Other, net	(107)	(107)
Total deferred tax liabilities	(103,604)	(56,216)
Net deferred tax asset (liability)	(28,739)	53,068
Valuation allowance	—	(42,569)
Net deferred tax assets (liabilities) after valuation allowance	\$ (28,739)	\$ 10,499

Tax benefits arising from employee stock transactions of \$56.7 million and \$13.8 million were realized in fiscal 2000 and 1999, respectively, and were credited to shareholders' equity. Cypress's net operating loss carryovers expire from 2010 through 2019 for federal tax purposes.

A valuation allowance against net deferred tax assets decreased from \$42.6 million to zero from fiscal 1999 to 2000, as Cypress believes it will realize all of its deferred tax assets.

During 1998, the United States Internal Revenue Service began an examination of tax returns for fiscal years 1994 through 1996. The examination concluded in June 2000. The outcome of the examination did not have a material effect on Cypress's consolidated financial position or results of operations.

Note 11: Commitments and Contingencies

Operating Lease Commitments

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

In June 1999, Cypress (Alation) moved its facilities and entered into a five-year operating agreement which required it to pay property taxes, insurance and normal costs. In September 2000, Cypress successfully negotiated the termination of this agreement with no consequence.

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

In 1994 and 1995, Cypress entered into two operating lease agreements with respect to its office and manufacturing facilities, in San Jose, which expired in 1999, and Minnesota, which expires in 2004. In October 1999, Cypress entered into a new operating lease agreement for the San Jose office, which expires in 2004 with the same lessor for the same facilities. In April 1996, Cypress entered into an additional lease agreement which expires in 2001 for two office facilities in San Jose. These agreements require quarterly payments that vary based on the London Interbank Offering Rate ("LIBOR"), plus a spread. All leases provide Cypress with the option of either acquiring the property at its original cost or arranging for the property to be acquired at the end of the respective lease terms. Cypress is contingently liable under certain first-loss clauses for up to \$50.9 million as of December 31, 2000. First loss clauses state that Cypress is potentially liable for any decline in the value of the property up to a specified percentage. The purchase option then permits Cypress to acquire the property at the lower value. Based on management's estimate of the fair value of the properties, no liability was required to be recorded at December 31, 2000, January 2, 2000 or January 3, 1999. Furthermore, Cypress is required to maintain a specific level of restricted cash or investments to serve as collateral for these leases and maintain compliance with certain financial covenants. As of December 31, 2000, the amount of restricted investments recorded was \$60.7 million, which is in compliance with these agreements. These restricted cash or investments are classified as non-current on the balance sheet.

The aggregate annual rental commitments under non-cancelable operating leases as of December 31, 2000 are as follows:

(In thousands)

Fiscal Year	
2001	\$ 13,508
2002	11,873
2003	10,421
2004	7,673
2005	2,518
2006 and thereafter	2,554
Total	\$ 48,547

Rental expense was approximately \$18.9 million in 2000, \$19.5 million in 1999 and \$22.2 million in 1998.

Litigation and Asserted Claims

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

- Enforce its patents or other intellectual property rights.

- Protect its trade secrets and know-how.
- Determine the validity or scope of the proprietary rights of others.
- Defend against claims of infringement or invalidity.

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

On November 16, 2000, Momentum, Inc. filed a complaint in the Santa Clara County Superior Court against Cypress for breach of warranty and deceit, in which it seeks consequential, indirect and punitive damages. We have reviewed and are investigating the allegations in the complaint. In February 2001, the Momentum complaint was dismissed, but they were given thirty days to refile. As of March 22, 2001, we had not been informed that Momentum had amended and/or refiled its complaint. Based on the information available at this time, we believe that the suit against us is without merit. Cypress will continue to vigorously defend this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on our consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, we may be required to pay damages and other expenses, which could have a material adverse effect on our financial position and results of operations.

On October 3, 2000, U.S. Philips Corp. filed a complaint against Cypress and five co-defendants in the Federal Court for the Southern District of New York for infringement of a U.S. patent. We have reviewed and investigated the allegations in the complaint and believe that we have meritorious defenses to these allegations. Cypress will vigorously defend itself in this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on our consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, we may be required to pay damages and other expenses, which could have a material adverse effect on our financial position and results of operations.

On June 12, 2000, Cypress filed a complaint in the Superior Court of California, against Altera Corporation for tortious interference with existing contractual relations, tortious interference with prospective economic relations, misappropriation of trade secrets and unfair competition. The complaint arises from Altera's interference with a multi-year agreement to collaborate on research and development between Cypress and Right Track CAD Corporation. In February 2001, we amended our complaint to add a cause of action based on fraud. We believe that we will ultimately prevail in this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on Cypress's consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, Cypress may be required to pay legal fees and other expenses that are not expected to have a material adverse effect on Cypress's financial position and results of operations.

During 1998, EMI Group of North America, Inc. ("EMI") filed suit against Cypress in the Federal Court in Delaware, claiming that we infringed on four patents owned by EMI. Cypress and EMI entered into a license agreement in February 1999, for one of the four patents in the lawsuit. EMI then withdrew two of the four patents from the lawsuit, including the patent related to the licensing agreement. The case involving the remaining two patents went to trial in October 1999. The jury ruled in our favor, finding that we infringed none of the patent claims and that each asserted claim was invalid due to prior art and physical impossibility (i.e., the patents require a step that is physically impossible to perform). EMI has filed an appeal, and we intend to defend ourselves vigorously. However, should the outcome of this action be unfavorable, our business, financial condition and results of operations could be materially and adversely affected.

In January 1998, an attorney representing the estate of Mr. Jerome Lemelson contacted Cypress and charged that we infringed certain patents owned by Mr. Lemelson and/or a foundation controlled by Mr. Lemelson's estate. On February 26, 1999, the Lemelson attorneys sued Cypress and 87 other companies in the United States District Court for the District of Arizona for infringement of 16 patents. In May 2000, the Court stayed litigation on 14 of the 16 patents in view of concurrent litigation in Nevada on the same 14 patents, brought against the Lemelson Partnership by manufacturers of machine vision and bar coding equipment. We have reviewed and investigated the allegations in the complaint and believe that the suit against us is without merit. Cypress will vigorously defend itself in this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on our consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, we may be required to pay damages and other expenses, which could have a material adverse effect on our financial position and results of operations.

In June 1997, Cypress commenced a declaratory judgment action in the United States District Court for the District of Nevada against the Li Second Family Trust ("the Trust"). In this action, we asked for declaratory relief to the effect that a U.S. patent relating to a part of the process for manufacturing semiconductors is unen-

forceable, invalid and not infringed by Cypress. The Trust has counter-claimed for patent infringement on the same patent, alleging such patent covers oxide-isolated integrated circuits. In May 1999, in a related case, the United States District Court for the Eastern District of Virginia ruled that the patent is unenforceable due to inequitable conduct by Dr. Li and his attorneys in obtaining the patent. The Trust appealed, and in November 2000, the Virginia court's ruling was upheld by the United States Court of Appeals for the Federal Circuit. Therefore, we believe our defenses to the counter-claim are meritorious, and we intend to continue to defend ourselves vigorously. While no assurance can be given regarding the final outcome of this action, we believe that the final outcome of the matters will not have a material effect on our consolidated financial position or results of operations. However, should the outcome of this action be unfavorable, our business, financial condition and results of operations could be materially and adversely affected.

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

Purchase Commitments

At December 31, 2000, Cypress had purchase commitments aggregating \$74.6 million, principally for manufacturing equipment and facilities, and bulk gas and nitrogen. These commitments relate to purchases to be made in 2001 of \$69.4 million and the remainder is committed through 2008. Commitments for 2001 purchases will be funded through a combination of cash resources, retirement of investments, the \$283.0 million 4.0% Convertible Subordinated Notes and the \$287.5 million 3.75% Convertible Subordinated Notes (see Note 7).

Note 12: Related Parties

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

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

Cypress recorded sales to QuickLogic of \$7.1 million and \$2.3 million in 1999 and 1998, respectively. At fiscal year-ends 1999 and 1998, Cypress had a receivable due from QuickLogic of \$0.9 and \$0.6 million, respectively. Due to Cypress's sale of its investment in October 1999, QuickLogic is not considered a related party in fiscal 2000.

Note 13: Segment Information

Historically, Cypress has disclosed two reportable segments, Memory Products and Non-memory Products. The Memory Products business segment includes static Random Access Memories. The Non-memory Products business segment includes programmable logic products, data communication devices, computer products, non-volatile memory products and wafers manufactured by the foundry.

On October 16, 2000, Cypress announced the formation of new divisions in order to enhance its focus on communications market segments. The WAN (Wide Area Networks) and SAN (Storage Area Networks) divisions

are helping provide product definition in the networking arena. Similarly, the WIT (Wireless Terminal) and WIN (Wireless Infrastructure) divisions help focus our efforts in the wireless space. The Computation market segment includes products used in computers, peripherals, and other applications. Cypress's current memory and non-memory business segments continue to operate as they have in the past. The market focus is expected to provide systems knowledge, cross-product-line product portfolio definition, early engagement with strategic accounts and added management of R&D spending.

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

Cypress's reportable business segments are strategic business units that offer different products. Products that fall under the two business segments differ in nature, are manufactured utilizing different technologies and have a different end-purpose. As such, they are managed separately. Memory Products are characterized more as a commodity, which is depicted by high unit sales volume and lower gross margins. These products are manufactured using more advanced technology. A significant portion of the wafers produced for Memory Products are manufactured at Cypress's technologically advanced, eight-inch wafer production facility located in Minnesota (Fab 4). Memory Products are used by a variety of end-users but the product is used specifically for the storage and retrieval of information. In contrast to Memory Products, unit sales of Non-Memory Products are generally lower than Memory Products, but sell at higher gross margins. Some Non-memory Products are manufactured utilizing less technologically advanced processes. A majority of wafers for Non-memory Products are manufactured at Cypress's six-inch wafer production facility located in Texas (Fab 2). Products in the Non-memory segment perform functions such as timing management, data transfer and routing in computer, communications and storage systems. Products range from high volume USB interfaces for personal computers to high value products such as our OC-48 SERDES device for optical communications systems.

The tables below set forth information about the reportable business segments for fiscal years 2000, 1999 and 1998. Cypress does not allocate interest income and expense, income taxes or non-recurring items to segments. Cypress does not allocate assets to segments. In addition, business segments do not have significant non-cash items other than depreciation and amortization in reported profit or loss.

Business Segment Net Revenues

(In thousands)

	2000	1999	1998
Memory	\$ 638,111	\$ 309,002	\$ 229,581
Non-memory	649,676	436,040	359,334
Total consolidated revenues	\$ 1,287,787	\$ 745,042	\$ 588,915

Business Segment Income (Loss) Before Provision for Income Taxes

(In thousands)

	2000	1999	1998
Memory	\$ 184,279	\$ (19,091)	\$ (88,056)
Non-memory	200,289	104,789	33,234
Acquisitions, restructuring and other non-recurring costs	(55,729)	(34,091)	(60,737)
Interest income and other	64,964	53,205	14,133
Interest expense	(23,633)	(9,643)	(11,276)
Income (loss) before provision for income taxes	\$ 370,170	\$ 95,169	\$(112,702)

Business Segment Depreciation and Amortization

(In thousands)

	2000	1999	1998
Memory	\$ 73,067	\$ 67,306	\$ 89,500
Non-memory	72,344	41,580	27,704
Total consolidated depreciation and amortization	\$ 145,411	\$ 108,886	\$ 117,204

Market Segment Information

The tables below set forth information about the market segments formed during fiscal 2000. Cypress operated and reported its financial information using the Business Segments disclosed above in the fiscal years ended 1999 and 1998, and therefore did not identify or report separate Market Segment information. Market Segment data has been provided to the extent that it is available. Cypress does not allocate income taxes or non-recurring items to segments. In addition, market segments do not have significant non-cash items other than depreciation and amortization in reported profit or loss.

Market Segment Net Revenues

(In thousands)

	2000
Wide area networks/storage area networks	\$ 536,566
Wireless terminals/wireless infrastructure	473,738
Computation	277,483
Total consolidated revenues	\$ 1,287,787

Market Segment Income (Loss) Before Provision for Income Taxes

(In thousands)

	2000
Wide area networks/storage area networks	\$ 166,224
Wireless terminals/wireless infrastructure	156,046
Computation	62,298
Acquisition, restructuring and other non-recurring costs	(55,729)
Interest income and other	64,964
Interest expense	(23,633)
Income before provision for income taxes	\$ 370,170

Geographic Area

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

(In thousands)

	2000	1999	1998
United States	\$ 657,388	\$ 377,625	\$ 338,038
Europe	281,574	131,528	91,984
Japan	133,669	69,041	53,298
Other foreign countries	215,156	166,848	105,595
Total revenues	\$ 1,287,787	\$ 745,042	\$ 588,915

Assets (property, plant and equipment, net) by geographic locations were:

(In thousands)

	2000	1999
United States	\$ 498,843	\$ 276,576
Philippines	65,503	77,426
Other foreign countries	7,129	4,204
Total assets	\$ 571,475	\$ 358,206

Note 14: Derivative Financial Instruments

Cypress has foreign subsidiaries that operate and sell Cypress's products in various global markets. As a result, Cypress is exposed to changes in foreign currency exchange rates. Cypress utilizes various hedge instruments, primarily forward contracts and currency option contracts, to manage its exposure associated with firm intercompany and third-party transactions and net asset and liability positions denominated in non-functional currencies. Cypress does not hold derivative financial instruments for speculative or trading purposes.

Forward contracts associated with firm third-party transactions are accounted for as hedges and recognition of gains and losses is deferred until settlement of the underlying commitments. Other forward contracts are not accounted for as hedges and, therefore, the unrealized gains and losses are recognized in other income, net in advance of the actual foreign currency cash flows with the fair value of these forward contracts being recorded in other assets or other liabilities.

The table below provides information as of December 31, 2000 of Cypress's forward contracts. The table presents the notional amounts, at contract exchange rates, and the weighted average contractual foreign currency exchange rates. The buy amount represent the United States dollar equivalent of commitments to purchase foreign currencies, and the sell amount represent the United States dollar equivalent commitments to sell foreign currencies. These forward contracts mature prior to September 2001.

(In thousands, except contract rate)

	Notional Amount	Weighted Average Contract Rate
Forward Contracts - buy/(sell):		
Japanese Yen	\$ (24,391)	106.6
French Francs	(1,015)	7.385
Euro	\$ 16,877	0.871

Note 15: Subsequent Events

On March 22, 2001, Cypress completed an agreement with a lessor in relation to the construction of an approximate 111,000 square foot general purpose office building on the northeast lot of Champion Court, adjacent to the current executive offices. The arrangement will include a 34.5-year ground lease granted by Cypress to the lessor. The lessor will construct the building on the lot, with Cypress acting as its construction agent. The agreement allows for an eighteen-month construction period followed by a five-year lease term. During the lease term, payments due vary based on LIBOR plus a spread based on a total lease balance of up to approximately \$21 million. Cypress is obligated to provide collateral equivalent to 86.2% of the then existing lease balance. At the end of the lease term, Cypress shall have the option to purchase the building.

On March 22, 2001, Cypress employees were offered the opportunity to exchange their stock options for a promise to issue new options six months and one day after the cancellation of the forfeited options. The offer to exchange options expires on April 4, 2001. The new options will be granted on October 8, 2001 with an exercise price equal to the NYSE closing price on the same day. Any grant issued prior to March 20, 2001 will be eligible for this program. The new option will be issued with 12 months vested as of October 8, 2001 and the balance will vest 1/60th per month regardless of how many options were vested at the time of the cancellation election.

On March 16, 2001, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress's outstanding common stock, bringing the total shares authorized in the repurchase program to 15 million. Since December 31, 2000, 1.0 million shares were repurchased at an average cost of \$21.01 per share. In conjunction with the stock repurchase, the Board of Directors authorized the additional sale of put warrants. Cypress sold put warrants through private placements for which Cypress received \$8.1 million between January 1, 2001 and March 22, 2001. Cypress had a maximum potential obligation to purchase 3.3 million shares of its common stock at an aggregate price of \$68.1 million as of March 22, 2001. The put warrants have various expiration periods through October 2001. Cypress has the right to settle the put warrants with cash or settle the difference between the exercise price and the fair market value at the exercise date with stock or cash. No amount was classified out of stockholders' equity in the accompanying consolidated balance sheet.

On February 23, 2001, Cypress completed its acquisition of International Microcircuits Inc. ("IMI"), a company specializing in timing technology integrated circuits. IMI's product portfolio includes programmable clocks, clock distribution products, electromagnetic interference suppression devices, and application-specific products. Cypress paid approximately \$126 million in cash and options to acquire Cypress common stock. Cypress will account for the transaction by the purchase accounting method.

On February 5, 2001, Cypress announced the signing of a definitive agreement to acquire HiBand Semiconductors, Inc., a provider of mixed-signal integrated circuits for high-speed communications markets. The acquisition, which has an estimated value of \$32 million, is expected to close during March 2001 and will be accounted for by the purchase accounting method. Closing is subject to regulatory approvals and other customary conditions.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Cypress Semiconductor Corporation and its subsidiaries at December 31, 2000 and January 2, 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
San Jose, California
January 22, 2001

Except as to Notes 11 and 15, which are as of March 22, 2001

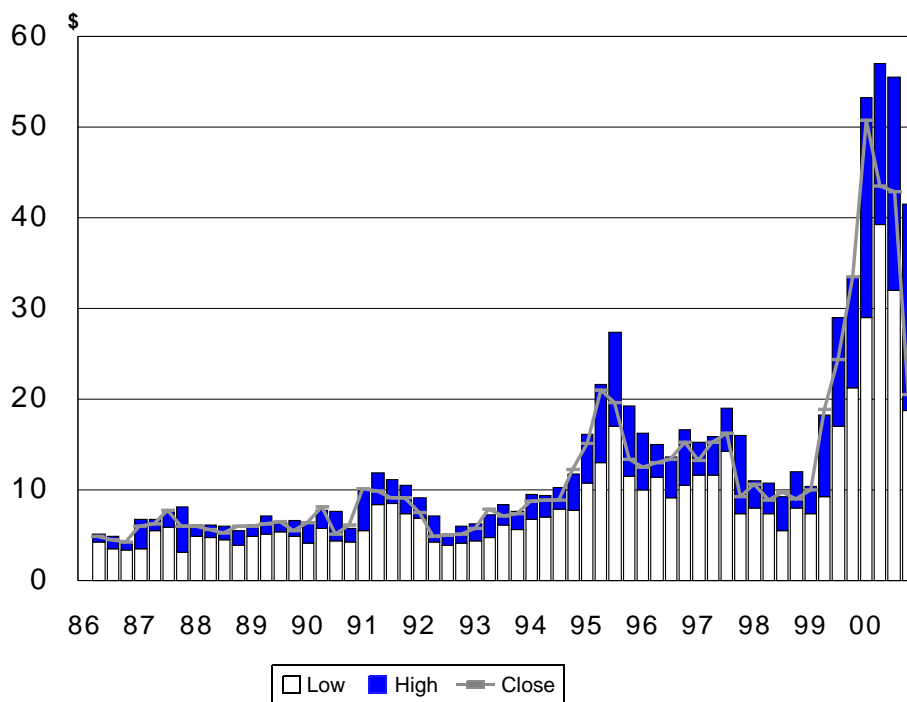
About Your Investment

Our Common Stock is listed on the New York Stock Exchange under the trading symbol "CY". The following table sets forth, for the periods indicated, the low, high, and closing price for the common stock. We have not paid cash dividends during our two preceding fiscal years and have no present plans to do so. At December 31, 2000 there were approximately 88,000 holders of record of our Common Stock.

Price Range of Common Stock (\$)

	Low	High	Close
Fiscal Year ended December 31, 2000:			
First Quarter	28.94	53.19	49.31
Second Quarter	39.19	57.00	42.25
Third Quarter	32.00	55.56	41.56
Fourth Quarter	18.81	41.50	19.69
Fiscal year ended January 2, 2000:			
First Quarter	8.06	10.19	9.31
Second Quarter	9.81	18.00	18.00
Third Quarter	17.81	28.50	23.50
Fourth Quarter	22.13	33.44	32.38

Share Price



Summary Annual and Quarterly Financial Data

(In thousands, except per-share data, percents and employee headcount)

(Unaudited)

Year Ended

	Dec. 31, 2000	Jan. 2, 2000	Jan. 3, 1999	Dec. 29, 1997	Dec. 30, 1996	Jan. 1, 1996	Jan. 2, 1995	Jan. 3, 1994
Revenues	\$ 1,287,787	\$ 745,042	\$ 588,915	\$ 632,969	\$ 600,032	\$ 645,823	\$ 432,368	\$ 327,388
Costs and expenses:								
Cost of revenues	564,839	408,885	429,599	424,462	368,852	305,949	238,082	193,248
Research and development	184,471	136,858	116,871	105,570	96,610	80,706	59,089	54,467
Selling, general and administrative	153,909	113,601	97,267	85,062	72,356	78,093	56,800	49,501
Acquisition-related non-recurring costs	56,214	37,902	—	3,669	—	—	—	18,271
Restructuring and other nonrecurring costs (benefits)	(485)	(3,811)	60,737	9,882	10,932	17,800	—	(408)
Total costs and expenses	958,948	693,435	704,474	628,645	548,750	482,548	353,971	315,079
Operating income (loss)	328,839	51,607	(115,559)	4,324	51,282	163,275	78,397	12,309
Interest expense	(23,633)	(9,643)	(11,276)	(8,461)	(7,743)	(7,543)	(4,747)	(935)
Interest income and other	64,964	53,205	14,133	13,442	9,349	8,784	6,529	2,269
Income (loss) before income taxes	370,170	95,169	(112,702)	9,305	52,888	164,516	80,179	13,643
(Provision) benefit for income taxes	(92,862)	(7,039)	11,108	(6,109)	(30,476)	(59,343)	(29,628)	(4,774)
Net income (loss)	\$ 277,308	\$ 88,130	\$ (101,594)	\$ 3,196	\$ 22,412	\$ 105,173	\$ 50,551	\$ 8,869
Net income (loss) per share:								
Basic	\$ 2.29	\$ 0.81	\$ (0.97)	\$ 0.03	\$ 0.24	\$ 1.13	\$ 0.62	\$ 0.11
Diluted	\$ 2.03	\$ 0.76	\$ (0.97)	\$ 0.03	\$ 0.23	\$ 0.99	\$ 0.55	\$ 0.11
Weighted average common and common equivalent shares outstanding:								
Basic	121,126	108,156	105,238	102,920	92,317	92,735	81,917	77,318
Diluted	144,228	115,527	105,238	110,820	97,767	109,672	96,096	82,658
Depreciation/ amortization expense	145,411	108,886	117,204	114,350	100,506	67,203	46,576	44,192
Cash, cash equivalents and short-term investments	884,601	280,947	174,513	213,939	98,353	166,387	201,618	86,479
Stockholders' equity	1,327,668	718,620	517,825	658,643	514,287	495,711	360,648	274,656
Number of employees	4,435	3,859	3,068	3,007	2,442	2,078	1,589	1,385
Percent of revenue								
Cost of revenue	44%	55%	73%	67%	61%	47%	55%	59%
Research & development	14%	18%	20%	17%	16%	12%	14%	17%
Selling, general & administrative	12%	15%	17%	13%	12%	12%	13%	15%
Total costs and expenses	74%	93%	120%	99%	91%	75%	82%	96%
Operating income (loss)	26%	7%	-20%	1%	9%	25%	18%	4%

Three Months Ended

Dec. 31, 2000	Oct. 1, 2000	July 2, 2000	April 2, 2000	Jan. 2, 2000	Oct. 3, 1999	July 4, 1999	April 4, 1999
\$ 370,025	\$ 352,687	\$ 300,834	\$ 264,241	\$ 219,908	\$ 195,016	\$ 170,825	\$ 159,293
151,087	147,783	135,143	130,826	114,402	105,514	95,671	93,298
55,382	47,954	42,742	38,393	36,755	33,862	34,067	32,174
43,420	40,350	36,513	33,626	33,921	27,879	26,850	24,951
8,856	35,557	7,592	4,209	26,084	2,005	6,070	3,743
—	—	(485)	—	—	—	(100)	(3,711)
258,745	271,644	221,505	207,054	211,162	169,260	162,558	150,455
111,280	81,043	79,329	57,187	8,746	25,756	8,267	8,838
(5,613)	(7,953)	(5,501)	(4,566)	(2,385)	(2,468)	(2,465)	(2,325)
21,260	16,987	12,315	14,402	41,838	4,218	3,871	3,278
126,927	90,077	86,143	67,023	48,199	27,506	9,673	9,791
(29,337)	(28,028)	(20,514)	(14,983)	(2,584)	(2,259)	(1,210)	(986)
\$ 97,590	\$ 62,049	\$ 65,629	\$ 52,040	\$ 45,615	\$ 25,247	\$ 8,463	\$ 8,805
\$ 0.75	\$ 0.51	\$ 0.56	\$ 0.45	\$ 0.40	\$ 0.23	\$ 0.08	\$ 0.09
\$ 0.68	\$ 0.45	\$ 0.50	\$ 0.40	\$ 0.35	\$ 0.21	\$ 0.08	\$ 0.09
129,335	121,139	118,186	115,841	113,450	110,982	107,484	100,709
147,575	148,474	142,113	138,750	130,513	120,932	112,838	104,598
46,919	38,493	34,160	29,997	27,549	26,526	27,355	27,456
884,601	831,245	840,378	517,163	280,947	215,107	181,071	238,870
1,327,668	1,139,002	897,399	794,984	718,620	650,601	589,833	563,310
4,435	4,277	3,896	3,876	3,859	3,717	3,536	3,163
41%	42%	45%	50%	52%	54%	56%	59%
15%	14%	14%	15%	17%	17%	20%	20%
12%	11%	12%	13%	15%	14%	16%	16%
70%	77%	74%	78%	96%	87%	95%	94%
30%	23%	26%	22%	4%	13%	5%	6%

CORPORATE INFORMATION

BOARD OF DIRECTORS

Eric Benhamou^(1,2) Chairman of the Board, Chairman of the Board of 3COM Corporation
 Fred B. Bialek Business Consultant
 John C. Lewis^(1,2,3) Former Chairman of the Board of Amdahl Corporation
 James R. Long^(1,2) Former Executive Vice President of Nortel Networks
 T. J. Rodgers⁽⁴⁾ President and Chief Executive Officer
 Alan F. Shugart⁽³⁾ Former Chief Executive Officer of Seagate
 T. J. Rodgers, President and Chief Executive Officer

EXECUTIVE VICE PRESIDENTS

Antonio Alvarez, Vice President, Memory Products Division and Research and Development
 Anthony Cantu, Vice President, Quality/Reliability Assurance
 Emmanuel Hernandez, Vice President, Finance and Administration and Chief Financial Officer
 Jeff Kaszubinski, Vice President, Engineering
 Paul Keswick, Vice President, New Product Development
 Ilbok Lee, Vice President, Timing Technology
 Robert McConnell, Vice President, President, Cypress MicroSystems, Inc.
 Daniel Morris, Vice President, WAN/SAN Business Segment
 Christopher Norris, Vice President, Data Communications
 Cathal Phelan, Vice President, Interface Products Division
 Ralph Schmitt, Vice President, Marketing and Sales
 Christopher Seams, Vice President, Worldwide Wafer Manufacturing
 Steve Whelan, Vice President, Wireless Business Segment
 Arthur Woodward, Vice President, Worldwide Manufacturing

LEGAL MATTERS

Questions regarding legal matters should be directed to:
 Emmanuel Hernandez, Vice President, Finance and Administration
 and Chief Financial Officer

LEGAL COUNSEL

Wilson, Sonsini, Goodrich & Rosati
 650 Page Mill Road
 Palo Alto, California 94304-1050
 (650) 493-9300

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
 10 Almaden Blvd., Suite 1600
 San Jose, California 95113
 (408) 817-3700

CORPORATE HEADQUARTERS

Cypress Semiconductor Corporation Telephone: (408) 943-2600
 3901 North First Street Facsimile: (408) 943-4730
 San Jose, California 95134-1599 Internet: <http://www.cypress.com>

REGISTRAR AND TRANSFER AGENT

EquiServe, L.P.
 150 Royall Street
 Canton, MA 02021
 (781) 575-3981

- (1) Member of the Audit Committee
 (2) Member of the Compensation Committee
 (3) Member of the Nominating Committee
 (4) Founder

The Letter to Shareholders, the 2000 Annual Report cover, and "Management's Discussion and Analysis" may contain forward-looking statements about the prospects for Cypress as well as the semiconductor industry more generally including without limitation statements about revenues for the first quarter of fiscal 2001, increases in gross margin, rate of growth of research and development expenditures as a percent of revenues, rate of growth of selling, general and administrative expenses, profitability goals, revenue goals, growth rate goals, market share goals, market size and growth projections, new product introductions, planned manufacturing capacity, and efficiency and cost goals. Actual results could differ materially from those described in the forward-looking statements as a result of various factors including, but not limited to, the factors identified in the Letter to Shareholders, the 2000 Annual Report cover, and the Management's Discussion and Analysis section, particularly "Factors Affecting Future Results," as well as the following:

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

Cypress employees produced this report to provide the maximum amount of useful information on the Company in an accessible form, at a minimum of cost. We appreciate their time and effort.

Cypress (with logo), EZ-USB, HOTLink, and RoboClock are registered trademarks and Cypress, Cypress Semiconductor, the Cypress logotype, Deep Sync, Delta39K, Driving the Communications Revolution, FX2, HOTLinkII, InfinPHY, MediaClock, MoBL, More Battery Life, NoBL, No Bus Latency, PSI, and RoboClockII are trademarks of Cypress Semiconductor Corporation. Programmable System-on-Chip and PSoC are trademarks of Cypress MicroSystems, Inc.

Other names may be service marks or trademarks of their respective holders and may be registered in certain jurisdictions.

Customer photographs used in this report were provided by Alcatel, Cisco Systems, Huawei Technologies, Lantern Networks, Motorola BCS, and Redback Networks, and are used by permission. The product names are trademarks or registered trademarks of the respective companies.

ANNUAL MEETING

The annual meeting of stockholders for Cypress Semiconductor Corporation will be held on Thursday, May 3, 2001 10:00 a.m., local time, at Cypress's offices at 3939 North First Street, San Jose, California 95134-1599.

COMMON STOCK

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

FORM 10K

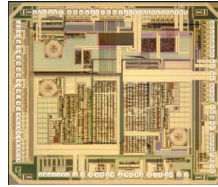
A copy of Cypress's Annual Report on Form 10K, as filed with the Securities and Exchange Commission, will be made available without charge to all stockholders upon written request to Cypress. Direct requests to the Attention of the Chief Financial Officer at the corporate office listed above.

Increasing New Product Complexity

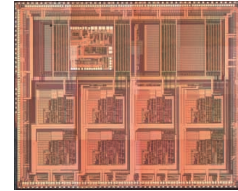
With a focus on emerging communications applications, Cypress combines its intellectual property (IP) in programmable logic, high-speed communications links, communications memory and timing technology to produce solutions optimized for high-speed systems that feed bandwidth-hungry Internet applications and other communications markets. These solutions can be categorized as single-function product-based solutions, and highly integrated system-based solutions.

Product-Based Solutions

Physical Layers



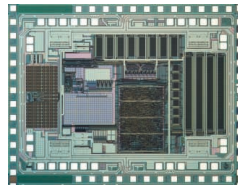
OC-48 Transceiver



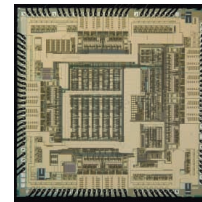
Quad HOTLink II™

Our physical-layer (PHY) designs have increased in speed and port density to meet the backplane and port bandwidth requirements of the Internet infrastructure. Our OC-48 PHY, targeted at high-speed port solutions, converts serial data to parallel format at 2.488 Gbps while maintaining full compliance to the rigorous Bellcore specifications for signal clarity that are important to our customers. Our Quad HOTLink II™ communications solution for data transfer and routing in advanced network switching systems offers the flexibility of four ports operating from 200 Mbps to 1.556 Gbps.

Timing Products



MediaClock™

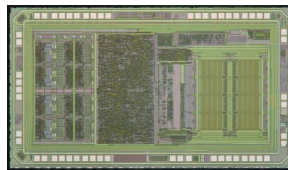


RoboClock® II

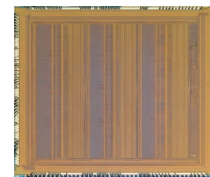
As system speed and complexity increase in communications and other digital systems, the demand for innovative timing solutions will continue to grow. Cypress offers the industry's broadest portfolio of timing solutions, providing programmability, precision skew control, differential inputs, and low noise. Our MediaClock™ for set-top box applications was specially designed for use in this high-volume broadband application. MediaClock is the first Cypress product to use our new proprietary SONOS (Silicon Oxide Nitride Oxide Silicon) non-volatile memory technology. RoboClock® II is our second-generation programmable skew clock buffer that delivers performance up to 200 MHz. RoboClock II is the first product of Cypress's new 3.3-volt, double-layer-metal, 0.25-micron BiCMOS process, which provides an optimal mix of speed, power, and cost relative to competitive processes.

System-Based Solutions

Programmable Integration



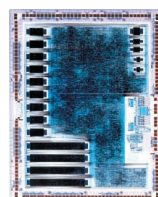
PSoC™



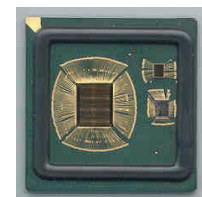
Delta39K™

Many types of Cypress intellectual property have been integrated into programmable product solutions. Our programmable system-on-chip™ (PSoC™) microcontroller combines programmable logic, analog blocks, and interconnect to create a custom microcontroller that can be programmed and used like a conventional microcontroller. Our Delta39K™ complex programmable logic devices (CPLDs), based on a 0.18 micron, six-layer metal CMOS logic process, combines 15,000-to-350,000 gates of logic with large blocks of single-port and dual-port communications RAM, and high-performance phase-locked loop (PLL) circuitry that feeds four global clock networks.

Market Driven



EZ-USB® FX2™



InfiniPHY™

By integrating key pieces of intellectual property, Cypress has attacked the core of emerging communications markets, such as Storage Area Networking. USB was originally targeted toward connections between PCs and high-speed peripherals, such as digital cameras, scanners, printers and broadband connections. Cypress put its 480-Mbps USB 2.0 solution, the EZ-USB® FX2™ controller chip, to work in mass-storage solutions such as hard disk drives and RAID (redundant array of independent disks) storage systems. Its InfiniPHY™ transceiver (CY7B9260V) is a point-to-point communications building block for high-bandwidth, fabric-based switching networks. This standard is being adopted in many new storage applications.

The Right Products For The Right Markets

Cypress components drive many of the world's leading electronic systems, targeting communications markets such as wide area networks (WAN), storage area networks (SAN), wireless terminals (WIT) and wireless infrastructure (WIN).



Redback Networks' Services Management System uses multiple Cypress communications products, including synchronous SRAMs, physical layers (PHYs) and timing technology products.



Alcatel's One Touch 300 series mobile phone, designed with Cypress's MoBL™ (More Battery Life™) SRAM, offers access to the Internet using Wireless Access Protocol (WAP) technology.



Huawei Technologies Co.'s Model 312 GSM basestation features large capacity, high integration and low power consumption; its design meets the requirements of telecom operators in terms of capacity, configuration, installation, power supply and transmission cost. The 312 GSM basestation uses Cypress SRAMs, PHYs and timing products.

Lantern Communications' Metro Packet Switch (MPS) optimizes the delivery of Ethernet services with Quality of Service (QoS) guarantees and cost efficiencies not achievable with other technologies. Cypress CPLDs (Complex Programmable Logic Devices) for critical circuitry are key components that are used on three boards of the Lantern MPS.



The Cisco Catalyst® 6500 is a high-performance, multilayer switching solution for campus networks. Cypress Roboclock®, NoBL™ (No Bus Latency™) SRAMs, multiports and other timing products help make this possible.

The Motorola DigiCipher® HDTV Encoder compresses a 1.4-Gbps baseband HDTV input down to less than 10 Mbps bit rates, compliant with MPEGII and ATSC standards. A bank of 64 1-Mbit Cypress Deep Sync™ FIFOs are used to buffer the base band HD input before processing.

DigiCipher® is a registered trademark of Motorola, Inc.



Driving the Communications Revolution™

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