

CYPRESS SEMICONDUCTOR CORP /DE/

Form 10-Q

November 02, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

OR

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

Commission file number 1-10079

**CYPRESS SEMICONDUCTOR CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**94-2885898**  
(I.R.S. Employer  
Identification No.)  
**198 Champion Court, San Jose, California 95134**  
(Address of principal executive offices and zip code)  
**(408) 943-2600**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The total number of outstanding shares of the registrant's common stock as of October 26, 2012 was 142,963,722.

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**PART I FINANCIAL INFORMATION**

**Forward-Looking Statements**

The discussion in this Quarterly Report on Form 10-Q contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including, but not limited to, statements related to our manufacturing strategy, the expected timing and costs related to our acquisition of Ramtron International Corporation, our expectation regarding dividends and stock repurchases, the application of our 2011 prepayments to Grace, our expectations regarding future technology transfers and other licensing arrangements, our expectations regarding the timing and cost of our restructuring liabilities, expected purchases by IV, the percentage of PARs share we expect to vest, our expectations regarding our active litigation matters, our intention to appeal the GSI ruling and our intent to defend ourselves in those matters; our foreign currency exposure and the impact exchange rates could have on our operating margins, the adequacy of our cash and working capital positions, the value and liquidity of our investments, including auction rate securities and our other debt investments, our ability to recognize certain unrecognized tax benefits within the next twelve months as well as the resolution of agreements with various foreign tax authorities, our investment strategy, the impact of interest rate fluctuations on our investments, the volatility of our stock price and the impact of new accounting standards on our financial statements. We use words such as plan, anticipate, believe, expect, future, intend and similar expressions to identify forward-looking statements. Such forward-looking statements are made as of the date hereof and are based on our current expectations, beliefs and intentions regarding future events or our financial performance and the information available to management as of the date hereof. Except as required by law, we assume no responsibility to update any such forward-looking statements. Our actual results could differ materially from those expected, discussed or projected in the forward-looking statements contained in this Quarterly Report on Form 10-Q for any number of reasons, including, but not limited to, the state and future of the general economy and its impact on the markets and consumers we serve and our investments; the current credit conditions; our ability to expand our customer base, our ability to transform our business with a leading portfolio of programmable products; the number and nature of our competitors; the changing environment and/or cycles of the semiconductor industry; foreign currency exchange rates; our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from our flexible manufacturing strategy; our ability to achieve our goals related to our restructuring activities; our success in our pending litigation matters, our ability to manage our investments and interest rate and exchange rate exposure; changes in the law, the results of our pending tax examinations; our ability to achieve liquidity in our investments, the failure or success of our Emerging Technology division and/or the materialization of one or more of the risks set forth above or in Part II, Item 1A (*Risk Factors*) in this Quarterly Report on Form 10-Q and in Part I, Item 1A (*Risk Factors*) in our Annual Report on Form 10-K for the fiscal year ended January 1, 2012.

**Table of Contents****ITEM 1. FINANCIAL STATEMENTS****CYPRESS SEMICONDUCTOR CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS\***

	September 30, 2012 (In thousands, except	January 1, 2012 (In thousands, except
	per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 162,329	\$ 99,717
Short-term investments	57,116	66,613
Accounts receivable, net	125,202	103,524
Inventories	89,310	92,304
Other current assets	48,972	43,492
Total current assets	482,929	405,650
Property, plant and equipment, net	270,243	284,979
Goodwill	31,836	31,836
Intangible assets, net	5,139	8,626
Other long-term assets	88,877	78,999
Total assets	\$ 879,024	\$ 810,090
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 54,907	\$ 52,868
Accrued compensation and employee benefits	42,282	41,679
Deferred margin on sales to distributors	169,551	150,568
Dividends payable	16,057	13,786
Income taxes payable	5,370	4,629
Other current liabilities	74,737	62,930
Total current liabilities	362,904	326,460
Deferred income taxes and other tax liabilities	39,140	38,610
Loan payable	198,000	
Other long-term liabilities	42,995	47,178
Total liabilities	643,039	412,248
Commitments and contingencies (Note 8)		
Equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; none issued and outstanding		
Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 285,186 and 278,812 shares issued; 145,669 and 154,174 shares outstanding at September 30, 2012 and January 1, 2012, respectively	2,851	2,780
Additional paid-in-capital	2,619,422	2,579,348
Accumulated other comprehensive income (loss)	(421)	(1,940)
Accumulated deficit	(326,315)	(326,163)
Stockholders' equity before treasury stock, total	2,295,537	2,254,025
Less: shares of common stock held in treasury, at cost; 139,517 and 124,638 shares at September 30, 2012 and January 1, 2012, respectively	(2,053,254)	(1,853,758)

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Total Cypress stockholders' equity	242,283	400,267
Noncontrolling interest	(6,298)	(2,425)
Total equity	235,985	397,842
Total liabilities and equity	\$ 879,024	\$ 810,090

\* Amounts as of September 30, 2012 are unaudited. Amounts as of January 1, 2012 were derived from the January 1, 2012 audited consolidated financial statements.

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

**Table of Contents****CYPRESS SEMICONDUCTOR CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>October 2,</b>	<b>September 30,</b>	<b>October 2,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(In thousands, except per-share amounts)</b>			
Revenues	\$ 203,015	\$ 264,743	\$ 589,404	\$ 752,832
Costs and expenses (credits):				
Cost of revenues	92,959	115,789	280,798	336,081
Research and development	46,908	46,266	142,822	143,409
Selling, general and administrative	47,328	55,453	159,776	172,587
Amortization of acquisition-related intangible assets	707	731	2,169	2,160
Restructuring costs	66	871	1,283	5,404
Gain on divestiture				(34,291)
Total costs and expenses, net	187,968	219,110	586,848	625,350
Operating income (loss)	15,047	45,633	2,556	127,482
Interest and other income (expense), net	(1,330)	(1,833)	(996)	(932)
Income (loss) before income taxes and noncontrolling interest	13,717	43,800	1,560	126,550
Income tax provision (benefit)	(241)	4,057	2,741	(9,026)
Income (loss), net of taxes	13,958	39,743	(1,181)	135,576
Adjust for net loss attributable to noncontrolling interest	374	238	1,030	602
Net income (loss) attributable to Cypress	\$ 14,332	\$ 39,981	\$ (151)	\$ 136,178
Net income (loss) per share attributable to Cypress:				
Basic	\$ 0.10	\$ 0.24	\$	\$ 0.81
Diluted	\$ 0.09	\$ 0.22	\$	\$ 0.71
Cash dividend declared per share	\$ 0.11	\$ 0.09	\$ 0.33	\$ 0.18
Shares used in net income (loss) per share calculation:				
Basic	147,673	163,867	151,153	167,979
Diluted	160,300	183,282	151,153	191,834

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

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**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,	October 2,	September 30,	October 2,
	2012	2011	2012	2011
	(In thousands)			
Net income (loss)	\$ 13,958	\$ 39,743	\$ (1,181)	\$ 135,576
Other comprehensive income (loss), net of tax:				
Change in net unrealized gains on available-for-sale investments	(1,009)	134	1,519	1,055
Other		(221)		79
Other comprehensive income	(1,009)	(87)	1,519	1,134
Comprehensive income (loss)	12,949	39,656	338	136,710
Adjust for net loss attributable to noncontrolling interest	374	238	1,030	602
Comprehensive income (loss) attributable to Cypress	\$ 13,323	\$ 39,894	\$ 1,368	\$ 137,312

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



**Table of Contents****CYPRESS SEMICONDUCTOR CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>October 2,</b>
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
Cash flows from operating activities:		
Net income (loss)	\$ (1,181)	\$ 135,576
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	67,068	75,412
Depreciation and amortization	37,877	42,361
Deferred income taxes and other tax liabilities	448	(13,313)
Restructuring costs	1,282	5,404
Loss on sale or retirement of property and equipment, net	821	1,396
Contribution of asset		4,000
Gain on divestiture		(34,291)
Gain (loss) on sale of investment, net	(149)	74
Loss on write-down of asset	1,474	1,982
Changes in operating assets and liabilities, net of effects of a divestiture:		
Accounts receivable	(21,678)	(16,198)
Inventories	1,873	(14,285)
Other current and long-term assets	(10,186)	(17,424)
Accounts payable and other liabilities	21,063	10,327
Deferred margin on sales to distributors	18,983	37,306
Net cash provided by operating activities	117,695	218,327
Cash flows from investing activities:		
Proceeds from sales or maturities of available-for-sale investments	112,137	197,510
Purchases of available-for-sale investments	(97,527)	(91,877)
Net contributions (distributions) of deferred compensation plan	310	2,244
Acquisition of property, plant and equipment	(25,204)	(71,798)
Proceeds from sales of property, plant and equipment	13	1,176
Proceeds from divestiture		34,025
Cash paid for other investments	(7,203)	(3,911)
Net cash provided by (used in) investing activities	(17,474)	67,369
Cash flows from financing activities:		
Repurchase of common shares	(179,257)	(363,995)
Loan payable proceeds	248,000	
Withholding of common shares for tax obligations on vested restricted shares	(20,239)	(43,319)
Proceeds from financing equipment		11,686
Payment of dividends	(47,170)	(15,262)
Proceeds from issuance of common shares under employee stock plan	20,361	56,980
Payments of equipment leases and loans, net	(59,737)	
Yield enhancement structured agreements settled in stock		(180,636)
Yield enhancement structured agreements settled in cash, net	433	49,927
Net cash used in financing activities	(37,609)	(484,619)

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Net increase (decrease) in cash and cash equivalents	62,612	(198,923)
Cash and cash equivalents, beginning of period	99,717	263,183
Cash and cash equivalents, end of period	\$ 162,329	\$ 64,260

## Supplemental disclosures:

Dividends payable	\$ 16,057	\$ 13,786
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**CYPRESS SEMICONDUCTOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Fiscal Years*

Cypress Semiconductor Corporation ( Cypress or the Company ) reports on a fiscal-year basis. We end our quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Fiscal 2012 has 52 weeks and fiscal 2011 had 52 weeks. The third quarter of fiscal 2012 ended on September 30, 2012 and the third quarter of fiscal 2011 ended on October 2, 2011.

*Basis of Presentation*

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring items, which are necessary to state fairly the financial information included therein. The financial data should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2012.

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

The results for the three and nine months ended September 30, 2012, and specifically the cost of goods sold, included approximately \$1.5 million and \$1.2 million, respectively, of inventory-related charges that related to prior periods. As management and the Audit Committee believe this error is not material to any prior years' financial statements and the impact of correcting these errors in the current year is not expected to be material to the full year fiscal 2012 financial statements, we recorded the correction of these errors in the third quarter of fiscal 2012.

The condensed consolidated results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

*Recently Adopted Accounting Standards*

In June 2011, Financial Accounting Standards Board ( FASB ) issued authoritative guidance on the presentation of comprehensive income to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The authoritative guidance also required presentation of adjustments for items that are reclassified from other comprehensive income in the statement where the components of net income and the components of other comprehensive income are presented, which was indefinitely deferred by the FASB in December 2011. We adopted this guidance in the first quarter of fiscal 2012 and we now present condensed consolidated statements of comprehensive income (loss) in a separate statement following the condensed consolidated statements of operations. The implementation of this authoritative guidance did not have any impact on our financial position or results of operations as it only required separate presentation of total comprehensive income (loss).

In May 2011, the FASB issued a new standard amending U.S. generally accepted accounting principles ( GAAP ) fair value measurements and disclosures for the purpose of ensuring that fair value measurement and disclosure requirements are the same across both U.S. GAAP and International Financial Reporting Standards ( IFRS ). The standard contains amendments changing the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, clarifying the application of existing fair value measurement requirements and changing a particular principle for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for our interim and annual periods beginning January 2, 2012. Additionally, the standard expands certain disclosure requirements, including qualitative disclosures selected to level 3 fair value measurements. We adopted this authoritative guidance in the first quarter of fiscal 2012 and our implementation of this authoritative guidance did not have any impact on our financial position or results of operations as it only required additional disclosures related to fair value measurements.

**NOTE 2. GOODWILL AND INTANGIBLE ASSETS**

***Goodwill***

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired in a business combination. The carrying amount of goodwill at September 30, 2012 was \$31.8 million in the Programmable Systems Division ( PSD ) and was unchanged from the balance at January 1, 2012. PSD is the only reportable business segment with goodwill.

Goodwill is not amortized, but is reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In fiscal 2011, we adopted the authoritative guidance which allows us to use a qualitative approach to test goodwill for impairment. This authoritative guidance permits us to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit

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is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. We regularly monitor current business conditions and other factors including, but not limited to (i) change in the industry and competitive environment; (ii) market capitalization; (iii) stock price; and (iv) overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.

**Intangible Assets**

The following table presents details of our intangible assets:

	As of September 30, 2012			As of January 1, 2012		
	Gross	Accumulated Amortization	Net (In thousands)	Gross	Accumulated Amortization	Net
Acquisition-related intangible assets	\$ 95,134	\$ (90,951)	\$ 4,183	\$ 95,134	\$ (88,782)	\$ 6,352
Non-acquisition related intangible assets	10,898	(9,942)	956	10,648	(8,374)	2,274
Total intangible assets	\$ 106,032	\$ (100,893)	\$ 5,139	\$ 105,782	\$ (97,156)	\$ 8,626

As of September 30, 2012, the estimated future amortization expense of intangible assets was as follows:

	(In thousands)
2012 (remaining three months)	\$ 1,176
2013	3,435
2014	528
Total future amortization expense	\$ 5,139

**NOTE 3. RESTRUCTURING**

For the three and nine months ended September 30, 2012, we recorded restructuring charges of \$0.1 million and \$1.3 million, respectively. For the three and nine months ended October 2, 2011, we recorded restructuring charges of \$0.9 million and \$5.4 million, respectively. The determination of when we accrue for severance and benefits costs, and which accounting standard applies, depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement.

**Fiscal 2011 Restructuring Plan**

In fiscal 2011, we initiated a restructuring plan which allows us to continue to allocate and align our resources to the business units that we expect will drive future development and revenue growth ( Fiscal 2011 Restructuring Plan ). To date, we have recorded total restructuring charges of \$5.8 million under the Fiscal 2011 Restructuring Plan, which was all related to personnel costs. The restructuring activities related to personnel costs, which are primarily in the U.S., are summarized as follows:

	(In thousands)
Balance as of January 1, 2012	\$ 1,955
Cash payments	(372)
Balance as of April 1, 2012	1,583
Provision	725
Cash payments	(185)

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Balance as of July 1, 2012	2,123
Cash payments	(367)
Non-cash charges	294
Balance as of September 30, 2012	\$ 2,050

The restructuring liability as of September 30, 2012 under the Fiscal 2011 Restructuring Plan related primarily to personnel costs and is expected to be paid out within the next twelve months.

**Table of Contents***Fiscal 2010 Restructuring Plan*

During the third quarter of fiscal 2010, we implemented a restructuring plan to exit certain of our back-end manufacturing operations located in the Philippines ( Fiscal 2010 Restructuring Plan ). These actions were intended to reduce the cost of our back-end manufacturing by selling our labor intensive assembly operations to a lower cost third-party subcontractor in China and by the continued shifting of these operations to our fully automated back-end processes.

To date, we have recorded total restructuring charges of \$4.1 million under the Fiscal 2010 Restructuring Plan, which was all related to personnel costs. As of September 30, 2012, the outstanding restructuring liability under the Fiscal 2010 Restructuring Plan was primarily related to severance and benefits of our employees. We expect to substantially complete the activities and fully pay out the remaining restructuring liability under this program within the next twelve months.

The restructuring activities related to personnel costs are summarized as follows:

	(In thousands)
Balance as of January 1, 2012	\$ 1,885
Provision	100
Cash payments	(1,291)
Balance as of April 1, 2012	694
Provision	200
Cash payments	(127)
Balance as of July 1, 2012	\$ 767
Cash payments	(31)
Balance as of September 30, 2012	\$ 736

*Assets Held For Sale:*

The Texas facility ceased operations in the fourth quarter of fiscal 2008. As our management has committed to a plan to sell the assets associated with the facility, we have classified the assets as held for sale and recorded the assets at the lower of their carrying amount or estimated fair value less cost to sell. Fair value was determined by an analysis of market prices for similar assets.

The net book value of the remaining restructured assets that were classified as held for sale and included in Other current assets in the Condensed Consolidated Balance Sheets was \$6.9 million as of September 30, 2012 and January 1, 2012.

**NOTE 4. BALANCE SHEET COMPONENTS***Accounts Receivable, Net*

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Accounts receivable, gross	\$ 129,029	\$ 107,433
Allowance for doubtful accounts receivable and sales returns	(3,827)	(3,909)
Total accounts receivable, net	\$ 125,202	\$ 103,524





**Table of Contents*****Inventories***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Raw materials	\$ 4,509	\$ 4,474
Work-in-process	61,006	63,552
Finished goods	23,795	24,278
Total inventories	\$ 89,310	\$ 92,304

***Other Current Assets***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Prepaid expenses	\$ 24,230	\$ 24,664
Prepayment to Grace	7,692	2,164
Assets held for sale	6,913	6,913
Sales and use tax receivable	4,695	4,194
Other current assets	5,442	5,557
Total other current assets	\$ 48,972	\$ 43,492

***Prepayment to Grace***

In fiscal 2011, we made certain pre-payments to Grace Semiconductor Manufacturing Corporations ( Grace ), a strategic foundry partner, to secure a certain supply of wafers. The pre-payments made in fiscal 2011 are expected to be applied to purchases of wafers from Grace. At September 30, 2012, the unapplied pre-payment balance was approximately \$7.7 million and was recorded as part of Other current assets in the Condensed Consolidated Balance Sheet because if we do not use all the pre-payment against our purchases of wafers from Grace within the next twelve months, Grace will return to us any portion of the unused pre-payment.

***Other Long-Term Assets***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Employee deferred compensation plan	\$ 36,460	\$ 32,976
Investments:		
Debt securities	14,821	19,004
Equity securities	13,237	6,213
Prepayment to Grace-long-term portion		5,957
Prepaid patent license	5,659	
Prepaid royalty	4,362	2,096
Other assets	14,338	12,753
Total other long-term assets	\$ 88,877	\$ 78,999



**Table of Contents*****Other Current Liabilities***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Employee deferred compensation plan	\$ 36,114	\$ 32,485
Patent license liability (see Note 8)	7,000	
Restructuring accrual (see Note 3)	3,005	4,061
Capital lease-current portion (see Note 8)	2,257	2,257
Equipment loan-current portion (see Note 9)	2,725	2,725
Rebates and concessions	4,024	200
Other current liabilities	19,612	21,202
Total other current liabilities	\$ 74,737	\$ 62,930

***Deferred Income Taxes and Other Tax Liabilities***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Deferred income taxes	\$ 111	\$ 165
Non-current tax liabilities	39,029	38,445
Total deferred income taxes and other tax liabilities	\$ 39,140	\$ 38,610

***Other Long-term Liabilities***

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Advances received from the sale of Auction Rate Securities ( ARS ) (see Note 5)	\$ 11,662	\$ 16,390
Capital lease long term portion (see Note 8)	13,417	12,982
Equipment loan long term portion (see Note 9)	9,426	11,413
Other long term liabilities	8,490	6,393
Total other long-term liabilities	\$ 42,995	\$ 47,178

**Table of Contents****NOTE 5. FAIR VALUE MEASUREMENTS***Assets/Liabilities Measured at Fair Value on a Recurring Basis*

The following tables present the fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis:

	As of September 30, 2012				As of January 1, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>								
Cash equivalents:								
Money market funds	\$ 62,883	\$	\$	\$ 62,883	\$ 77,952	\$	\$	\$ 77,952
Corporate notes/bonds						1,340		1,340
Commercial paper		37,749		37,749				
Total cash equivalents	62,883	37,749		100,632	77,952	1,340		79,292
Short-term investments:								
U.S. treasuries	10,027			10,027	10,072			10,072
Corporate notes/bonds		26,037		26,037		33,028		33,028
Federal agency		3,003		3,003		15,524		15,524
Commercial paper		16,484		16,484		7,189		7,189
Certificates of deposit		1,565		1,565		800		800
Total short-term investments	10,027	47,089		57,116	10,072	56,541		66,613
Long-term investments:								
Auction rate securities			14,821	14,821			19,004	19,004
Marketable equity securities	6,057			6,057	3,013			3,013
Non-marketable equity securities			1,180	1,180			3,200	3,200
Total long-term investments	6,057		16,001	22,058	3,013		22,204	25,217
Employee deferred compensation plan:								
Mutual funds	20,863			20,863	18,046			18,046
Equity securities	4,997			4,997	5,448			5,448
Fixed income	3,475			3,475	3,799			3,799
Cash equivalents	3,938			3,938	1,960			1,960
Money market funds	3,187			3,187	3,723			3,723
Total employee deferred compensation plan	36,460			36,460	32,976			32,976
Total financial assets	\$ 115,427	\$ 84,838	\$ 16,001	\$ 216,266	\$ 124,013	\$ 57,881	\$ 22,204	\$ 204,098
<b>Financial Liabilities</b>								
Employee deferred compensation plan	\$ 36,114	\$	\$	\$ 36,114	\$ 32,485	\$	\$	\$ 32,485

**Table of Contents****Valuation Techniques:**

Level 1 includes instruments for which quoted prices in active markets for identical assets or liabilities that we have the ability to access. Our financial assets utilizing Level 1 inputs include U.S. treasuries, money market funds, marketable equity securities and our employee deferred compensation plan assets.

Level 2 includes instruments for which the valuations are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 2 assets consist of certain marketable debt instruments for which values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Our Level 2 instruments include certain U.S. government securities, commercial paper, corporate notes and bonds and employee deferred compensation plan liabilities.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Financial assets utilizing Level 3 inputs primarily include auction rate securities. We use an income approach valuation model to estimate the exit price of the auction rate securities, which is derived as the weighted-average present value of expected cash flows over various periods of illiquidity, using a risk adjusted discount rate that is based on the credit risk and liquidity risk of the securities.

***Sale of Auction Rate Securities***

In December 2011, we entered into a settlement and securities purchase agreement (the "Securities Agreement") with a certain financial institution. Pursuant to the terms of the Securities Agreement, we agreed to sell to the financial institution certain of our ARS investments with an aggregate par value of approximately \$19.1 million and carrying value of approximately \$17.3 million at the time of sale for an aggregate sale price of approximately \$16.4 million. Under the terms of the Securities Agreement, we have the option to repurchase from the financial institution any of the ARS we sold to them until November 30, 2013 for the amount at which the related ARS were sold plus agreed upon funding costs. Because of our ability to repurchase the ARS from the date of sale through November 30, 2013, we maintain effective control of these ARS. As such, we did not account for the transaction as a sale and recognized the sale consideration we received as "Advances received for the sale of ARS" under "Other long-term liabilities" in the Condensed Consolidated Balance Sheets. We will continue to account for these ARS as a financing arrangement until they are called or the expiration of our call option under the Securities Agreement.

For the nine months ended September 30, 2012 ARS with a par value of \$5.0 million were called for redemption at par, which resulted in the reversal of an unrealized loss of \$0.1 million.

The fair value of our investments in ARS was approximately \$14.8 million and \$19.0 million as of September 30, 2012 and January 1, 2012, respectively.

In the third quarter of fiscal 2012 and during the fourth quarter of fiscal 2011, we performed an analysis to assess the fair value of the ARS, not subject to the Securities Agreement, using a valuation model based on discounted cash flows. The assumptions used were the following:

	Q3-2012	Q4-2011
Years to liquidity	7	7
Discount rates *	1.01%-3.27%	1.75%-3.95%
Continued receipt of contractual interest which provides a premium spread for failed auctions	Yes	Yes

\* Discount rates incorporate a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the ARS were valued at approximately 93.2% and 90.9% of their stated par value as of September 30, 2012 and January 1, 2012, respectively, representing a decline in value of approximately \$1.1 million and \$1.9 million, respectively. These amounts were recorded as an unrealized loss in accumulated other comprehensive loss as of September 30, 2012 and

January 1, 2012.

**Table of Contents****Level 3 Investments Measured Fair Value on a Recurring Basis**

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

	Auction Rate Securities	Non-marketable Equity Securities (In thousands)
Balance as of January 1, 2012	\$ 19,004	\$ 3,200
Unrealized gain recorded in Other comprehensive income (loss)	817	
Realized loss		(2,020)
Amount settled at par	(5,000)	
Balance as of September 30, 2012	\$ 14,821	\$ 1,180

**Level 3 Assets Measured at Fair Value on a Nonrecurring Basis**

Certain of our assets, including intangible assets, goodwill and cost-method investments, are measured at fair value on a nonrecurring basis if impairment is indicated.

**Investments in Equity Securities**

Our investments in equity securities included long-term investments in non-marketable equity securities (investments in privately-held companies) of approximately \$7.2 million and marketable equity securities (investments in publicly traded companies) of approximately \$6.1 million as of September 30, 2012 (\$3.2 million investments in non-marketable equity securities and \$3.0 million investments in marketable equity securities as of January 1, 2012). Our privately-held equity investments are accounted for under the cost method as we have less than 20% ownership interest and we do not have the ability to exercise significant influence over the operations of the privately-held companies. These investments are periodically reviewed for other-than-temporary declines in fair value by considering available evidence, including general market conditions, financial condition, pricing in recent rounds of financing, if any, earnings and cash flow forecasts, recent operational performance and any other readily available market data. As a result of our recent evaluation, we determined that our investment in a certain privately-held company with an original carrying value of \$4.0 million was impaired (fair value of \$2.0 million). As such, we recognized an impairment loss of approximately \$2.0 million in Interest and other income, net during nine months ended September 30, 2012 and we classified the investment as Level 3 asset due to the absence of quoted market prices and inherent lack of liquidity. We had no impairment charges against our privately-held equity investments in the first three quarters of fiscal 2011.

In February 2012, we entered into a Stock Purchase Agreement (the Agreement) with a company that designs, develops and manufactures products in the area of advanced battery storage for mobile consumer devices. Pursuant to the terms of the Agreement, we purchased approximately \$6 million of preferred stock from the company and have committed to purchase additional preferred stock in a series of subsequent closings subject to certain performance milestones that must be fulfilled within a defined and agreed upon timeline. Our future commitment to purchase additional preferred stock is approximately \$0.6 million in fiscal 2012, \$60.8 million in fiscal 2013 and \$17.8 million in fiscal 2014 subject to the attainment of certain milestones and the timing of additional capital requests which could vary substantially. As of September 30, 2012, we own less than 10% of the company. If our future commitments are fully funded, we could become their majority shareholder. As of September 30, 2012, our initial investment of \$6.0 million was recorded as part of our investments in non-marketable equity securities and included in the \$7.2 million amount noted above.

There were no significant transfers between Level 1, Level 2 and Level 3 fair value hierarchies during the first nine months of fiscal 2012.

**Table of Contents****NOTE 6. INVESTMENTS AND EMPLOYEE DEFERRED COMPENSATION PLAN***Available-For-Sale Securities*

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

	Cost	As of September 30, 2012 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (In thousands)	Cost	As of January 1, 2012 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Reported as cash equivalents:								
Money market funds	\$ 62,883	\$	\$	\$ 62,883	\$ 77,952	\$	\$	\$ 77,952
Corporate notes/bonds					1,341		(1)	1,340
Commercial paper	37,749			37,749				
Total cash equivalents	100,632			100,632	79,293		(1)	79,292
Reported as short-term investments:								
Corporate notes/bonds	26,018	26	(7)	26,037	33,010	33	(15)	33,028
U.S. treasuries	10,003	24		10,027	10,004	68		10,072
Federal agency	3,003	1	(1)	3,003	15,526	4	(6)	15,524
Commercial paper	16,483	1		16,484	7,189	1	(1)	7,189
Certificates of deposit	1,564	1		1,565	801		(1)	800
Total short-term investments	57,071	53	(8)	57,116	66,530	106	(23)	66,613
Reported as long-term investments:								
Auction rate securities	15,900		(1,079)	14,821	20,900		(1,896)	19,004
Marketable equity securities	4,455	1,842	(240)	6,057	3,253		(240)	3,013
Total long-term investments	20,355	1,842	(1,319)	20,878	24,153		(2,136)	22,017
Total available-for-sale securities and other	\$ 178,058	\$ 1,895	\$ (1,327)	\$ 178,626	\$ 169,976	\$ 106	\$ (2,160)	\$ 167,922

As of September 30, 2012, \$1.1 million of the \$1.3 million gross unrealized losses were related to ARS that had been in a continuous loss position for 12 months or more. As of January 1, 2012, \$1.9 million of the \$2.2 million gross unrealized losses were related to ARS that had been in a continuous loss position for 12 months or more. For individual marketable equity securities with unrealized losses, we evaluated the near-term prospects in relation to the severity and duration of the impairment. Based on that evaluation and our ability and intent to hold these investments for a reasonable period of time, we did not consider these investments to be other-than-temporarily impaired as of September 30, 2012 or January 1, 2012.



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As of September 30, 2012, the contractual maturities of our available-for-sale investments and certificates of deposit were as follows (the table below does not include our investments in marketable equity securities):

	Cost (in thousands)	Fair Value
Maturing within one year	\$ 155,701	\$ 155,746
Maturing in one to three years	2,002	2,002
Maturing in more than three years	15,900	14,821
Total	\$ 173,603	\$ 172,569

Realized gains and realized losses from sales of available-for-sale investments were not material for all periods presented.

Proceeds from sales or maturities of available-for-sale investments were \$52.0 million and \$112.1 million for the three and nine months ended September 30, 2012, respectively, and \$27.4 million and \$197.5 million for the three and nine months ended October 2, 2011, respectively.

**Employee Deferred Compensation Plan**

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

The marketable securities related to the deferred compensation plan are classified as non-current trading investments. These securities are classified as non-current since final sale of investments or realization of proceeds by plan participants is not expected within our normal operating cycle of one year. Under the deferred compensation plan, the assets are recorded at fair value in each reporting period with the offset being recorded in Interest and other income, net. The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income. As of September 30, 2012 and January 1, 2012, the fair value of the assets was \$36.5 million and \$33.0 million, respectively, and the fair value of the liabilities was \$36.1 million and \$32.5 million, respectively.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
Changes in fair value of assets recorded in:				
Interest and other income, net	\$ 1,503	\$ (4,347)	\$ 3,155	\$ (2,867)
Changes in fair value of liabilities recorded in:				
Cost of revenues	(217)	560	(439)	358
Research and development expenses	(389)	1,204	(723)	638
Selling, general and administrative expenses	(945)	2,464	(2,016)	1,544
Total income (expense)	\$ (48)	\$ (119)	\$ (23)	\$ (327)

**Table of Contents****NOTE 7. STOCK-BASED COMPENSATION**

Our equity incentive plans are broad-based, long-term programs intended to attract and retain talented employees and align stockholder and employee interests.

The following table summarizes the stock-based compensation expense, by line item recorded in the Condensed Consolidated Statements of Operations:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
	<b>(In thousands)</b>			
Cost of revenues	\$ 4,526	\$ 5,002	\$ 16,324	\$ 18,226
Research and development	5,062	5,894	17,455	18,308
Selling, general and administrative	6,513	13,939	33,289	38,878
Total stock-based compensation	\$ 16,101	\$ 24,835	\$ 67,068	\$ 75,412

As stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The accounting guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Consolidated cash proceeds from the issuance of shares under the employee stock plans were approximately \$10.4 million and \$20.4 million for the three and nine months ended September 30, 2012, respectively, and \$8.7 million and \$57.0 million for the three and nine months ended October 2, 2011, respectively. We did not recognize a tax benefit from stock option exercises for the three and nine months ended September 30, 2012 or October 2, 2011.

As of September 30, 2012 and January 1, 2012, stock-based compensation capitalized in inventories totaled \$3.5 million and \$4.6 million, respectively.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
	<b>(In thousands)</b>			
Stock options	\$ 1,588	\$ 2,954	\$ 5,511	\$ 10,514
Restricted stock units and restricted stock awards	12,266	20,888	54,163	60,163
Employee Stock Purchase Plan ( ESPP )	2,247	993	7,394	4,735
Total stock-based compensation expense	\$ 16,101	\$ 24,835	\$ 67,068	\$ 75,412

The following table summarizes the unrecognized stock-based compensation expense, net of estimated forfeitures, by type of awards as of September 30, 2012:

	<b>Weighted- Average As of September 30, 2012 (In thousands)</b>	<b>Amortization Period (In years)</b>
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Stock options	\$	10,383	1.46
Restricted stock units and restricted stock awards		46,046	1.37
ESPP		2,710	0.72
Total unrecognized stock-based compensation balance	\$	59,139	1.36

**Table of Contents*****Valuation Assumptions***

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
Expected life	1.2-8.0 years	0.5-7.3 years	1.2-8.0 years	0.5-7.3 years
Volatility	44.8%-48.3%	47.7%-51.3%	42.9%-49.6%	37.6%-51.3%
Risk-free interest rate	0.2%-1.3%	0.1%-1.5%	0.2%-1.5%	0.1%-2.9%
Dividend yield	3.8%	2.2%	2.8%-3.8%	1.7%-2.2%

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

***Equity Incentive Program***

As of September 30, 2012, approximately 19.1 million stock options or 10.1 million restricted stock units and restricted stock awards were available for grant under the Amended and Restated 1994 Stock Plan.

***Stock Options:***

The following table summarizes our stock option activities:

	<b>Shares (In thousands, except per-share amounts)</b>	<b>Weighted- Average Exercise Price Per Share</b>
Options outstanding as of January 1, 2012	23,363	\$ 6.49
Granted	3	\$ 18.33
Exercised	(1,144)	\$ 5.42
Forfeited or expired	(288)	\$ 10.32
Options outstanding as of April 1, 2012	21,934	\$ 6.50
Granted	18	\$ 13.64
Exercised	(889)	\$ 4.25
Forfeited or expired	(266)	\$ 10.83
Options outstanding as of July 1, 2012	20,797	\$ 6.55
Granted	156	\$ 12.30
Exercised	(553)	\$ 4.66
Forfeited or expired	(262)	\$ 14.98
Options outstanding as of September 30, 2012	20,138	\$ 6.56
Options exercisable as of September 30, 2012	15,256	\$ 5.30

The weighted-average grant-date fair value of the options granted during the nine months ended September 30, 2012 and October 2, 2011 was \$3.43 and \$6.99.

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The aggregate intrinsic value of the options outstanding and options exercisable as of September 30, 2012 was approximately \$99.8 million and \$87.2 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value which would have been received by the option holders had all option holders exercised their options as of September 30, 2012 and do not include substantial tax payments.

The aggregate pre-tax intrinsic value of option exercises, which represents the difference between the exercise price and the value of Cypress common stock at the time of exercise, was \$4.1 million and \$27.2 million during three and nine months ended September 30, 2012, respectively.

The total number of exercisable in-the-money options was approximately 14.3 million shares as of September 30, 2012.

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As of September 30, 2012, stock options vested and expected to vest totaled approximately 19.5 million shares, with a weighted-average remaining contractual life of 4.0 years and a weighted-average exercise price of \$6.44 per share. The aggregate intrinsic value was approximately \$98.1 million.

*Restricted Stock Units and Restricted Stock Awards:*

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

	Shares (In thousands, except per-share amounts)	Weighted- Average Grant Date Fair Value Per Share
Balance as of January 1, 2012	9,005	\$ 4.90
Granted	3,904	\$ 16.07
Released	(3,372)	\$ 7.15
Forfeited	(1,353)	\$ 7.47
Balance as of April 1, 2012	8,184	\$ 14.96
Granted	306	\$ 13.62
Released	(439)	\$ 9.77
Forfeited	(121)	\$ 16.68
Balance as of July 1, 2012	7,930	\$ 15.17
Granted	375	\$ 12.31
Released	(204)	\$ 10.23
Forfeited	(357)	\$ 16.55
Balance as of September 30, 2012	7,744	\$ 15.13

In the first three quarters of fiscal 2012, we released 4.0 million shares which included 0.5 million performance-based awards ( PARS ) incremental shares issued due to overachievement on the PSoC revenue milestone against the target. The said incremental shares were approved by the Compensation Committee. As these 0.5 million PARS were approved during the first quarter of fiscal 2012, they were treated as new awards for accounting purposes. As such, the related compensation cost of approximately \$15.3 million was included in our Condensed Consolidated Statement of Operations for the nine months ended September 30, 2012.

The 7.7 million outstanding restricted stock units and awards as of September 30, 2012 included approximately 3.5 million PARS granted under the Amended and Restated 1994 Stock Plan. These PARS were issued to certain senior-level employees in the first quarter of fiscal 2012 and can be earned ratably over a period of one to two years, subject to the achievement of certain performance milestones set by the Compensation Committee. These performance milestones include the following:

Core Grant a company-wide scorecard of various individual milestones focused on financial results, cost savings, gaining additional market share, introducing new products on specific schedules and implementing various operational and customer facing systems ( Core Grant Scorecard ). Each individual milestone is assigned a specific number of points and each milestone has specific accomplishments that are documented in advance in order to achieve 100% of the milestone and scales down to a specific 0% point. The maximum number of points that can be achieved is 100 and there is no discretionary component to the Core Grant Scorecard. In order for an executive to earn 100% of the shares underlying the Core Grant, the Company must obtain 90.0 points or greater under the Core Grant Scorecard and the achievement then scales down linearly to 0% of shares earned if the Core Grant Scorecard is less than 50 points.

Tier 1 Grant requires the Company to achieve an approved design win during calendar year 2012 at a certain large multi-national consumer electronics company utilizing certain of the Company's new products ( Tier 1 Targeted Design Win ). In order for an executive to earn 100% of the shares underlying the Tier 1 Grant, the Tier 1 Targeted Design Win dollar value must be greater than a specified multimillion dollar amount and achievement then scales down linearly to 0% of the shares earned if the Tier 1 Targeted Grant Design Win is less than a specified dollar amount.

Tier 2 Grant requires the Company to grow its 2012 annual revenue at a year-over-year percentage rate ( Annual Revenue Growth Rate ) greater than a group of peer companies that it directly competes with. There are ten (10) companies, including Cypress, that comprise the peer group and all companies have been agreed upon in advance by the Compensation Committee. To earn 100% of the shares underlying the Tier 2 Grant the Company would need to be ranked #1 out of 10 in the Annual Revenue Growth Rate. To earn 75%, 50% or 25% of the shares underlying the Tier 2 Grant, the Company would need to be ranked #2, #3, and #4, respectively, in the Annual Revenue Growth Rate. No shares can be earned if the Company is ranked #5 or below among the peer group or if the Company's 2012 annual revenue change rate is negative by 10% or more regardless of how the Company ranks compared to the group of peer companies.

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In the event of overachievement in the Tier 1 and Tier 2 Grant milestones and at the discretion of the Compensation Committee, the number of shares that can be earned could exceed 100% of the shares underlying the Tier 1 and Tier 2 Grants. However, under all circumstances, the total number of shares that can be earned under all three milestones cannot exceed the maximum target shares under the 2012 PARS. As at the end of the third quarter of fiscal 2012, management has estimated that approximately 48% of the overall 2012 PARS are expected to vest, and has accordingly recorded the stock compensation expense based on the number of shares expected to vest.

Upon certification and confirmation by the Compensation Committee, the earned shares for the Core Grant and Tier 1 Grant shares will be 100% vested at the time of delivery. Tier 2 Grant shares will have a twelve-month cliff vest following certification of the milestone attainment.

If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods.

**NOTE 8. COMMITMENTS AND CONTINGENCIES****Operating Lease Commitments**

We lease certain facilities and equipment under non-cancelable operating lease agreements that expire at various dates through fiscal 2018. Some leases include renewal options, which would permit extensions of the expiration dates at rates approximating fair market rental values at the time of the extension.

As of September 30, 2012, future minimum lease payments under non-cancelable operating leases were as follows:

Fiscal Year	(In thousands)
2012 (remaining three months)	\$ 4,400
2013	5,611
2014	4,473
2015	3,621
2016	2,462
2017 and thereafter	2,858
<b>Total</b>	<b>\$ 23,425</b>

**Capital Lease**

On July 19, 2011, we entered into a capital lease agreement which allows us to borrow up to \$35.0 million to finance the acquisition of certain manufacturing equipment. We have the option of purchasing the equipment from the lessor at specified times during the lease term. The master lease contains standard covenants requiring us to insure and maintain the equipment in accordance with the manufacturers' recommendations and comply with other customary terms to protect the leased assets. In addition, the master lease agreement contains provisions in the event of default. Assets purchased under the capital lease are included in Property, plant and equipment, net as manufacturing equipment and the amortization is included in depreciation. As of September 30, 2012, the gross value and net book value of manufacturing equipment purchased under a capital lease was approximately \$20.5 million and \$18.5 million, respectively. As of September 30, 2012, the total minimum lease payments under our capital leases amounted to approximately \$15.7 million.



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Future minimum payments, by year and in the aggregate, under the capitalized lease consist of the following:

Fiscal Year	(In thousands)
2012 (remaining three months)	\$ 734
2013	2,936
2014	2,936
2015	2,936
2016 and thereafter	7,182
Total minimum lease payments	16,724
Less: amount representing interest	1,050
Present value of net minimum lease payments	\$ 15,674

**Equity Investment Commitments**

As disclosed in Note 5, we have committed to purchase additional preferred stock from a company in a series of subsequent closings which are subject to certain performance milestones that must be fulfilled within a defined and agreed-upon timeline. Our future commitment to purchase additional preferred stock is approximately \$0.6 million in fiscal 2012, \$60.8 million in fiscal 2013 and \$17.8 million in fiscal 2014 subject to the attainment of certain milestones and the timing of additional capital requests which could vary substantially.

**Product Warranties**

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

The following table presents our warranty reserve activities:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
Beginning balance	\$ 3,091	\$ 3,120	\$ 3,085	\$ 3,347
Settlements made	(135)	(1,322)	(641)	(1,977)
Provisions	135	1,286	647	1,714
Ending balance	\$ 3,091	\$ 3,084	\$ 3,091	\$ 3,084

**Patent License Agreement**

On April 30, 2012, we entered into a strategic Patent License Agreement ( PLA ) with IV Global Licensing LLC ( IV ) under which we and our majority-owned subsidiaries will receive a license to IV 's substantial patent portfolio. This transaction will allow us and IV to continue to develop our strategic relationship regarding patent monetization and litigation defense. Under the terms of the PLA, we have agreed to pay a license fee of approximately \$14 million and to purchase certain litigation defense services from IV in the future. In addition, in a related agreement, IV is expected to make certain patent purchases from us in the near term. The exact terms and conditions of the PLA are subject to confidentiality provisions, and are the subject of an application for confidential treatment to be filed with the SEC.

One of the benefits that we received from the PLA was the avoidance of future litigation expenses as well as future customer disruption and based upon our analysis, using a relief from royalty method, we determined that a portion of the license fee that we will pay IV represents the

cumulative cost relating to prior years. As such, we recorded approximately, \$7.1 million which has been recorded as a charge to cost of revenues during the three months ended April 1, 2012. We have capitalized approximately \$0.8 million in current assets, and \$6.1 million in long term assets in the Condensed Consolidated Balance Sheet and amortize over the purchased life of the patent portfolio. Approximately \$0.4 million was amortized as of September 30, 2012. The remaining capitalized balance of the IV is approximately \$0.8 million in current assets, and \$5.7 million in long term assets in the Condensed Consolidated Balance Sheet as of September 30, 2012. We recorded a corresponding liability for the \$7.0 million which is part of Other current liabilities in the Condensed Consolidated Balance Sheet as of September 30, 2012. We paid one half of the \$14.0 million liability in July 2012 and the remaining \$7.0 million is due to be paid by the end of fiscal 2012.

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### **Litigation and Asserted Claims**

In July 2011, the International Trade Commission (ITC) instituted a formal action to enjoin the importation of GSI Technology, Inc. ( "GSI" ) products that infringe four of our U.S. patents. The Cypress patents at issue cover GSI's static random access memory ( "SRAM" ) technology, including GSI's Sigma DDR, SigmaQuad II and III families of memory products, GSI's standard synchronous and ZBT SRAMs as well as a proprietary product made for GSI's largest customer. On October 25, 2012, Administrative Law Judge Charles Bullock issued his initial determination, finding no violation of the Tariff Act by GSI Technology. We intend to seek a review of the initial determination by the full ITC Commission. We believe strongly in the merits of our ITC action, and intend to take the steps necessary to protect our intellectual property. Our five patent infringement case against GSI Technology ( "GSI" ) in the U.S. District Court in Minnesota remains stayed pending a final determination in the ITC matter. We are seeking damages as well as injunctive relief from the court.

In July 2011, GSI filed requests for re-examination of two of our asserted U.S. Patents (Nos. 7,142,477 and 6,534,805) with the U.S. Patent and Trademark Office ( "PTO" ). The PTO has completed its re-examination of our U.S. Patent No. 7,142,477 and confirmed its validity, allowing 64 new claims added by us during the re-examination. The 805 re-examination is currently pending with respect to 6 of the 10 original claims; however, the PTO has confirmed the validity of three of the original claims and allowed 51 new claims added by us during the re-examination. The last remaining original claim was not subject to the re-examination. In July 2011, GSI also filed a civil complaint with the Federal District Court in Northern California, accusing the QDR Consortium, of which we are a member, of certain anti-competitive activity. We are currently engaged in the early stages of discovery in this case. Aside from injunctive relief, GSI has made no specific monetary demand in the anti-trust matter. Accordingly, the possible range of monetary loss in the matter, if any, is demanded in the future, is unknown at this time. We believe we have meritorious defenses to the allegations set forth in the GSI civil complaint and we will vigorously defend ourselves in that matter.

Cypress and four other defendants are currently named in a four patent infringement case filed by the bankruptcy trustee of the assets of Qimonda AG, a non-operating entity, in the U.S. District Court of Eastern Virginia. The case has now been transferred to the Northern District of California and we are in the early stages of discovery. We believe we have meritorious non-infringement and invalidity defenses in this case, and as such, we will defend ourselves vigorously. Qimonda is seeking injunctive relief as well as unspecified monetary damages. Because the case is at a very early stage and no specific monetary demand has been made, it is not possible for us to estimate the potential loss or range of potential losses.

As a result of our acquisition of a controlling interest in Ramtron International Corporation ( "Ramtron" ) see Note 15, we will assume control of certain ongoing litigation involving Ramtron, including certain shareholder litigation related to the transaction between us and Ramtron. On October 15, 2012, Paul Dent, a stockholder of Ramtron, filed a complaint in the Court of Chancery in the State of Delaware, as a class action on behalf of himself and other similarly situated Ramtron stockholders. Dent alleges that Ramtron and certain of its directors and officers breached their fiduciary duties in connection with the merger agreement pursuant to which we agreed to acquire all of the outstanding shares of Ramtron for \$3.10 a share in cash. Specifically, the complaint alleges that Ramtron and certain of its directors and officers failed to engage in a competitive process and disclose fully all material information relating to the Board's recommendation to Ramtron's stockholders to tender shares to Cypress. The complaint seeks, among other things, injunctive relief as follows: an order declaring the action to be properly maintainable as a class action, an order enjoining the merger, an order rescinding, to the extent already implemented, the merger or any of the terms thereof, or granting plaintiffs and the class rescissory damages, an order directing defendants to account to plaintiff and the class for all damages suffered as a result of the alleged wrongdoing, and an award of attorneys' fees and costs. On October 22, 2012, plaintiff added us a defendant to the case and petitioned the court for an expedited proceedings in this case. We believe strongly that this case is without merit and we, along with Ramtron, intend to defend it vigorously.

In October 2012, Allan P. Weber ( "Plaintiff Weber" ), a purported Ramtron stockholder, also filed a putative class action complaint against Ramtron, certain of its officers and directors, and Cypress and its wholly-owned subsidiary Rain Acquisition Corporation, in the District Court for El Paso County, Colorado. Plaintiff alleges that the directors and officers of Ramtron breached their fiduciary duties in connection with the merger agreement, pursuant to which Cypress agreed to acquire all of the outstanding shares of the Company for \$3.10 per share in cash. Specifically, the complaint alleges that the officer and directors of Ramtron violated their fiduciary duties by failing to take steps to maximize the value of Ramtron to its public stockholders and took steps to avoid competitive bidding, failed to properly value Ramtron, and ignored or did not protect against conflicts of interest. The complaint seeks, among other things, relief as follows: an order preliminarily and permanently enjoining the merger, an order rescinding the merger or awarding Plaintiff rescissory damages in the event the merger is consummated prior to entry of the court's final judgment, an order directing defendants to account to Plaintiff for all damages suffered and profits and any special benefits obtained by defendants as a result of the alleged wrongdoing, and an award of attorneys' fees and costs. We believe this the lawsuit is without merit and, together with Ramtron, intends to defend it vigorously.

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

**NOTE 9. DEBT AND EQUITY TRANSACTIONS*****Line of Credit***

On March 28, 2012, we amended our revolving line of credit with Silicon Valley Bank to increase the available borrowing from \$5 million to \$55 million and to extend the maturity date to March 27, 2013. On March 29, 2012, we borrowed \$50 million under this line of credit. On June 26, 2012 we repaid the outstanding balance of \$50 million and accrued interest and terminated the revolving line of credit, replacing it with a secured revolving credit facility.

***Senior Secured Revolving Credit Facility***

On June 26, 2012, we entered into a five-year senior secured revolving credit facility ( Credit Facility ) with a group of lenders led by Morgan Stanley Senior Funding, Inc. as administrative agent and collateral agent. The Credit Facility enables us to borrow up to \$430 million on a revolving basis. Borrowing terms vary based on the type of borrowing with all outstanding balances being due at the credit facility termination date, or June 25, 2017. Outstanding amounts may be repaid prior to maturity without penalty and are mandatory for certain asset sales and casualty events. For Eurodollar rate loans, the Credit Facility bears interest at LIBOR plus 2.25% on the drawn amount. There is a commitment fee payable of 0.375% per annum on any undrawn amounts. The Credit Facility contains customary affirmative, negative and financial covenants for similarly rated companies. The financial covenants include the following conditions: 1) maximum senior secured leverage ratio of 2.00 to 1.00, 2) maximum total leverage ratio of 3.50 to 1.00 through June 30, 2013 and 3.00 to 1.00 thereafter, 3) minimum fixed charge coverage ratio of 1.20 to 1.00, and 4) minimum liquidity of at least \$150 million. Borrowings are secured by substantially all assets of the company. At September 30, 2012, our outstanding borrowings of \$198 million were recorded as part of long-term liabilities and are presented as

Loan payable in the Condensed Consolidated Balance Sheet. As of September 30, 2012, we were in compliance with all of the financial covenants under the Credit Facility.

***Equipment Loans***

In December 2011, we obtained equipment loans from a certain financial institution for an aggregate amount of approximately \$14.1 million. These loans are collateralized by certain of our manufacturing equipment and bear interest of 3.15% to 3.18% per annum and are payable in 60 equal installments with the first installments due in January 2012. The related master loan agreement includes a variety of standard covenants including restrictions on merger with another company without consent (which shall not be unreasonably withheld), liquidation or dissolution, and distribution, lease or transfer of our ownership interest in these properties or assets. During the first three quarters of fiscal 2012, we repaid approximately \$1.9 million of the equipment loans. As of September 30, 2012, the outstanding balance of the equipment loans was approximately \$12.2 million, of which approximately \$2.8 million was recorded as part of Other current liabilities and \$9.4 million was recorded as part of Other long-term liabilities in the 2012 Condensed Consolidated Balance Sheet. At September 30, 2012, the fair value of the equipment loans approximated the carrying value. The fair value was estimated using discounted cash flow analysis using relevant factors that might affect the fair value, such as present value factors and risk-free interest rates based on the U.S. Treasury yield curve.

The schedule of principal payments under our equipment loans is as follows:

Fiscal Year	(In thousands)
2012 (remaining three months)	\$ 671
2013	2,737
2014	2,825
2015	2,915
2016	3,003
Total	\$ 12,151



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### ***Stock Buyback Program:***

#### ***\$400 Million Program Authorized in Fiscal 2011***

On September 20, 2011, our Board of Directors authorized a new \$400 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, other uses of cash, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at the discretion of our board of directors. For the three months ended September 30, 2012, we used approximately \$81.6 million from this program to repurchase approximately 7.3 million shares at an average share price of \$11.20. Since we announced our \$400 million stock buyback program in September 2011 through the end of the third quarter of fiscal 2012, we have used approximately \$279.3 million from this program to repurchase approximately 19.9 million shares at an average share price of \$14.01. As of September 30, 2012, the remaining authorized amount that can be used to repurchase shares under the program was approximately \$120.7 million.

### ***Dividends***

On August 20, 2012, our Board approved a cash dividend of \$0.11 per share payable to holders of record of our common stock at the close of business day on September 27, 2012. This cash dividend was paid on October 18, 2012 and totaled approximately \$16.1 million which was accrued for in the third quarter of fiscal 2012 and shown as Dividends payable in the Condensed Consolidated Balance Sheet as of September 30, 2012.

**Table of Contents****NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of accumulated other comprehensive loss were as follows:

	As of	
	September 30, 2012	January 1, 2012
	(In thousands)	
Accumulated net unrealized loss on available-for-sale investments	\$ (421)	\$ (1,551)
Other		(389)
Total accumulated other comprehensive income (loss)	\$ (421)	\$ (1,940)

**NOTE 11. FOREIGN CURRENCY DERIVATIVES**

We operate and sell products in various global markets and purchase capital equipment using the U.S. dollar and foreign currencies. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. We may use various hedge instruments from time to time to manage the exposures associated with purchases of foreign sourced equipment, net asset or liability positions of our subsidiaries and forecasted revenues and expenses. We do not enter into foreign currency derivative financial instruments for speculative or trading purposes. The counterparties to these hedging transactions are creditworthy multinational banks and the risk of counterparty nonperformance associated with these contracts is not considered to be material as of September 30, 2012. We estimate the fair value of our forward contracts based on spot and forward rates from published sources.

We record hedges of certain foreign currency denominated monetary assets and liabilities at fair value at the end of each reporting period with the related gains or losses recorded in Interest and other income, net in the Condensed Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. The aggregate notional value of outstanding forward contracts to hedge the risks associated with foreign currency denominated assets and liabilities as of September 30, 2012 and January 1, 2012 was not material.

**NOTE 12. INCOME TAXES**

Our income tax benefit was \$0.2 million for the three months ended September 30, 2012 and tax expense was \$4.1 million for the three months ended October 2, 2011. Our income tax expense was \$2.7 million and our tax benefit was \$9.0 million for the nine months ended September 30, 2012 and October 2, 2011, respectively. The tax provision for the third quarter of fiscal 2012 and first nine months of fiscal 2012 was primarily attributable to non-U.S. taxes on income earned in foreign jurisdictions, partially offset by release of previously accrued income taxes due to expired statute of limitations in foreign jurisdictions and an operating tax benefit due to tax expense recorded in other comprehensive income. The tax expense for the third quarter and the tax benefit for the first nine months of fiscal 2011 was primarily attributable to a release of previously accrued taxes and interest of \$18.4 million due to the completion of an income tax examination, and expired statutes of limitations in foreign jurisdictions, partially offset by non-U.S. taxes on income earned in foreign jurisdictions.

**Unrecognized Tax Benefits*****Unrecognized Tax Benefits***

As of September 30, 2012 and January 1, 2012, the amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate totaled \$26.9 million and \$27.5 million, respectively.

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

completion of examinations by the U.S. or foreign taxing authorities; and

expiration of statute of limitations on our tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business. We believe it is possible that we may recognize approximately \$4.5 million to \$5.5 million of our existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of agreements with domestic and various foreign tax authorities.



**Table of Contents*****Classification of Interest and Penalties***

Our policy is to classify interest and penalties, if any, as components of the income tax provision in the Condensed Consolidated Statements of Operations. As of September 30, 2012 and January 1, 2012, the amount of accrued interest and penalties totaled \$10.6 million and \$9.8 million, respectively.

**NOTE 13. NET INCOME (LOSS) PER SHARE**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
	<b>(In thousands, except per-share amounts)</b>			
Net income (loss) attributable to Cypress	\$ 14,332	\$ 39,981	\$ (151)	\$ 136,178
Weighted-average common shares	147,673	163,867	151,153	167,979
Weighted-average diluted shares	160,300	183,282	151,153	191,834
Net income (loss) per share basic	\$ 0.10	\$ 0.24	\$	\$ 0.81
Net income (loss) per share diluted	\$ 0.09	\$ 0.22	\$	\$ 0.71

For the three and nine months ended September 30, 2012, approximately 8.3 million and 6.2 million weighted common stock equivalents, respectively, were excluded in the computation of diluted net loss per share because their effect would have been anti-dilutive.

For the three and nine months ended October 2, 2011, approximately 1.9 million and 1.5 million weighted common stock equivalents, respectively, were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

**Table of Contents****NOTE 14. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION****Segment Information**

During the three months ended April 1, 2012, we realigned our operating segments as part of our continued efforts to better allocate key management resources and to focus on our core markets, such as our programmable products including our flagship programmable system-on-chip ( PSoC® ) solution and its derivatives, universal serial bus ( USB ), including the high performance West Bridge solutions, and our industry leading high performance static random access memory ( SRAM ) solutions. Accordingly, beginning with the three months ended April 1, 2012, we have reported our financial results under the following business segments:

<b>Business Segments</b>	<b>Description</b>
<b>MPD:</b> Memory Products Division	An existing division that will continue to focus on our four SRAM business units, general-purpose programmable clocks and process technology licensing.
<b>DCD:</b> Data Communications Division	An existing division realigned to focus solely on USB controllers, WirelessUSB and West Bridge® peripheral controllers for handsets, personal computers and tablets.
<b>PSD:</b> Programmable Systems Division	A new division focusing primarily on our PSoC® and PSoC-based products. This business segment focuses on (1) the PSoC platform family of devices including PSoC 1, PSoC 3 and PSoC 5 and all derivatives; (2) PSoC-based user interface products such as CapSense® touch-sensing and TrueTouch touchscreen products; (3) PSoC-based module solutions including Trackpad and Ovation Optical Navigation Sensors (ONS); (4) automotive products; and (5) certain legacy product lines.
<b>ETD:</b> Emerging Technologies Division	Our startup division, which includes Cypress EnviroSystems, Agiga Tech Inc. and Deca Technologies Inc., all majority-owned subsidiaries of Cypress. ETD also includes our foundry business and other development-stage activities.

As a result of the change in the structure of our operating segments, the financial results we reported in prior periods under the old business segment structure have been recast to conform to the new segment presentation. This reclassification did not impact our previously reported consolidated revenues, operating income, net income, or earnings per share. Also, the change in our business operating segments did not have any impact on the reporting units that we use for goodwill impairment purposes.

The following tables set forth certain information relating to our reportable business segments under the new reporting structure:

**Revenue:**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>	<b>September 30, 2012</b>	<b>October 2, 2011</b>
	<b>(In thousands)</b>			
Programmable Systems Division	\$ 93,634	\$ 131,644	\$ 271,285	\$ 350,526
Memory Products Division	88,254	102,474	253,082	304,742
Data Communications Division	18,809	28,881	59,163	93,896
Emerging Technologies Division	2,318	1,744	5,874	3,668
<b>Total revenue</b>	<b>\$ 203,015</b>	<b>\$ 264,743</b>	<b>\$ 589,404</b>	<b>\$ 752,832</b>



**Table of Contents****Income from Continuing Operations before Income Taxes:**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
Programmable Systems Division	\$ 2,914	\$ 29,005	\$ 2,264	\$ 61,906
Memory Products Division	38,319	42,238	102,934	120,906
Data Communications Division	(1,884)	4,397	(1,618)	15,119
Emerging Technologies Division	(5,396)	(4,839)	(17,773)	(14,658)
Unallocated items:				
Stock-based compensation	(16,101)	(24,835)	(67,068)	(75,412)
Patent license fee			(7,100)	
Amortization of acquisition-related intangibles	(707)	(731)	(2,169)	(2,160)
Restructuring charges	(66)	(871)	(1,283)	(5,404)
Changes in value of deferred compensation plan	(48)	(119)	(23)	(327)
Gain on divestiture				34,291
Charitable donation of building				(4,125)
Impairment of assets and other	(3,314)	(445)	(6,604)	(3,586)
Income (loss) before income taxes	\$ 13,717	\$ 43,800	\$ 1,560	\$ 126,550

**Geographical Information**

The following table presents our revenues by geographical locations:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
United States	\$ 23,128	\$ 32,462	\$ 78,162	\$ 91,768
Europe	19,796	31,962	62,102	97,787
China	75,267	81,905	203,366	285,061
South Korea	22,389	43,480	70,522	74,584
Rest of the World	62,435	74,934	175,252	203,632
Total revenue	\$ 203,015	\$ 264,743	\$ 589,404	\$ 752,832

**Depreciation:**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
Programmable Systems Division	\$ 4,900	\$ 6,401	\$ 14,191	\$ 17,992
Memory Products Division	4,579	4,946	13,229	15,608
Data Communications Division	1,039	1,426	3,276	4,870
Emerging Technologies Division	1,272	121	3,404	291

Total depreciation	\$ 11,790	\$ 12,894	\$ 34,100	\$ 38,761
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Property, plant and equipment, net, by geographic locations were as follows:

	As of	
	September 30, 2012	January 1, 2012
	(In thousands)	
United States	\$ 176,952	\$ 187,438
Philippines	71,305	75,323
Other	21,986	22,218
Total property, plant and equipment, net	\$ 270,243	\$ 284,979

We track our assets by physical location. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, our chief operating decision maker does not review asset information on a segment basis.

**Customer Information**

Outstanding accounts receivable from Zenitron Inc, Avnet and Macnica, Inc, three of our distributors accounted for 13.7 %, 12.2% and 11.2% of our consolidated accounts receivable as of September 30, 2012. Outstanding accounts receivable from Arrow Electronics, Inc., Arkian and Avnet, Inc., three of our distributors, accounted for 14%, 14% and 11% of our consolidated accounts receivable as of January 1, 2012, respectively.

Revenue generated through Macnica, Inc., Avnet, and Arrow Electronics Inc. accounted for 13%, 13% and 10%, respectively, of our consolidated revenue for the three months ended September 30, 2012. Revenue generated through Avnet, Inc., Macnica and Arrow, Inc. accounted for 13%, 12% and 10%, respectively, of our consolidated revenue for the nine months ended September 30, 2012. Samsung Electronics ( Samsung ), an end customer, purchases our products from certain of our distributors, primarily from Arkian. Shipments made by our distributors to Samsung during the three and nine months ended September 30, 2012 accounted for 9% and 11% of our consolidated revenue, respectively.

For the three and nine months ended October 2, 2011, two global distributors accounted for 10.9% and 11.5% of our total revenues. For the three months ended October 2, 2011, one end customer accounted for 11.8% of our total revenue

**NOTE 15. SUBSEQUENT EVENTS**

On September 19, 2012, we entered into an agreement and plan to merge with Ramtron International Corporation ( Ramtron ); pursuant to which and subject to the satisfaction of the conditions set forth therein, we agreed to amend our existing offer to purchase all the outstanding shares of common stock of Ramtron for a purchase price of \$3.10 per share in cash. Following the successful acquisition of control of Ramtron, we also agreed to complete a merger of our acquisition subsidiary with and into Ramtron to complete the acquisition of Ramtron (the Merger ).

On October 10, 2012, we announced that the initial offering period to Ramtron s stockholders had expired and we had acquired approximately 70% of the outstanding shares of Ramtron. On the same day, we commenced a subsequent offering period, and appointed T.J. Rodgers, Brad W. Buss, Dana C. Nazarian, Neil Weiss, Cathal Phelan and Thomas Surrette to the Ramtron board of directors. William G. Howard, Jr., William L. George and Theodore J. Coburn remained on the Ramtron board of directors pending completion of the Merger.

On October 18, 2012, the subsequent tender offering period expired and as of this date, we acquired approximately 78% of the outstanding shares of common stock of Ramtron International Corporation for \$3.10 per share in cash. Cypress intends to acquire all of the remaining outstanding stock of Ramtron by means of a merger pursuant to Delaware law. On October 29, 2012, Ramtron filed a definitive proxy statement soliciting stockholder approval of the merger. We currently hold a sufficient number of shares to approve the Merger and intend to do so at the Ramtron stockholder meeting that will take place on or about November 20, 2012.

We expect the total purchase price to be approximately \$117.5 million and we incurred approximately \$2.6 million in acquisition costs to date which have been expensed as incurred. Due to the timing of closing, we have not completed the purchase accounting for this transaction. We expect to complete the purchase price allocation for this acquisition during the fourth quarter of fiscal 2012.



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Ramtron is a publicly traded company that is a leader in the design, development, and delivery of semiconductor memory and integrated semiconductor solutions in the nonvolatile memory segment. Following the merger, Ramtron will be a wholly owned subsidiary of Cypress. After the merger, Ramtron will cease to be traded on the Nasdaq Global Market. Until that time, Ramtron common stock will continue to trade. Operations of Ramtron will be included in our consolidated results of operations subsequent to the acquisition date. Ramtron will be included in our Memory Products Division.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, which are discussed in the Forward-Looking Statements section under Part I of this Quarterly Report on Form 10-Q. As more fully detailed in the Subsequent Events section of the notes to condensed consolidated financial statements of this Quarterly Report, on October 10, 2012, we acquired a controlling interest in Ramtron International Corporation (Ramtron). We have entered into a merger agreement, pursuant to which we have agreed to purchase the remaining outstanding shares of common stock for a cash purchase price of \$3.10 per share. We expect to close on the Ramtron acquisition on or about November 20, 2012. For clarity, despite our majority ownership in Ramtron, aside from transaction costs incurred, the management's discussion, analysis and financial results to follow do not reflect or incorporate Ramtron's financial results of operations for the third quarter of 2012 or operations going forward. Please see Ramtron's Quarterly Report on Form 10Q for further information.

**EXECUTIVE SUMMARY****General**

Cypress Semiconductor Corporation (Cypress) delivers high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and exceptional system value. Our offerings include the flagship PSoC® families and derivatives such as CapSense® touch sensing and TrueTouch solutions for touchscreens. We are the world leader in USB controllers, including the high-performance West Bridge® solution that enhances connectivity and performance in multimedia handsets. In addition we are the industry leader in the high-performance SRAM memory market and a market leader in programmable timing devices. We serve numerous markets including consumer, mobile handsets, computation, data communications, automotive, industrial and military. Cypress programmable products can be found in a wide array of the world's leading end products, including cell phones, tablets, PCs and PC peripherals, audio and gaming devices, household appliances, and communications devices.

As discussed in Note 14 of Notes to Condensed Consolidated Financial Statements under Part I, Item 1 *Financial Statements*, we have realigned our business segments as outlined below.

<b>Business Segments</b>	<b>Description</b>
<b>MPD:</b> Memory Products Division	An existing division that will continue to focus on our four SRAM business units, general-purpose programmable clocks and process technology licensing.
<b>DCD:</b> Data Communications Division	An existing division realigned to focus solely on USB controllers, WirelessUSB and West Bridge® peripheral controllers for handsets, PCs and tablets.
<b>PSD:</b> Programmable Systems Division	A new division focusing primarily on our PSoC® and PSoC-based products. This business segment focuses on (1) the PSoC platform family of devices including PSoC 1, PSoC 3 and PSoC 5 and all derivatives; (2) PSoC-based user interface products such as CapSense® touch-sensing and TrueTouch touchscreen products; (3) PSoC-based module solutions including Trackpad and Ovation Optical Navigation Sensors (ONS); (4) automotive products; and (5) certain legacy product lines.
<b>ETD:</b> Emerging Technologies Division	Our startup division, which includes Cypress EnviroSystems, AgigA Tech Inc. and Deca Technologies Inc., all majority-owned subsidiaries of Cypress. ETD also includes our foundry business and other development-stage activities.

**Manufacturing Strategy**

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



**Table of Contents****Results of Operations****Revenues**

The following table summarizes our consolidated revenues by segments under the new reporting structure:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
Programmable Systems Division	\$ 93,634	\$ 131,644	\$ 271,285	\$ 350,526
Memory Products Division	88,254	102,474	253,082	304,742
Data Communications Division	18,809	28,881	59,163	93,896
Emerging Technologies Division	2,318	1,744	5,874	3,668
<b>Total Revenues</b>	<b>\$ 203,015</b>	<b>\$ 264,743</b>	<b>\$ 589,404</b>	<b>\$ 752,832</b>

**Programmable Systems Division:**

Revenues from the Programmable Systems Division decreased by \$38.0 million in the third quarter of fiscal 2012 and \$79.2 million in the first three quarters of fiscal 2012, or approximately 28.9% and 22.6%, respectively, compared to the same prior-year periods. These decreases were primarily attributable to a decline in sales of our PSoC platform family of devices and a decline in sales of our TrueTouch® touchscreen products. The decrease in our TrueTouch® revenue stream was primarily due to a decrease in revenue from our handset and tablet customers and lower average selling prices.

**Memory Products Division:**

Revenues from the Memory Products Division decreased by approximately \$14.2 million in the third quarter of fiscal 2012 and \$51.7 million in the first three quarters of fiscal 2012, or approximately 13.9% and 17.0%, respectively, compared to the same prior-year periods. The decrease in MPD revenue in the third quarter of fiscal 2012 and the first three quarters of fiscal 2012 was primarily attributable to a \$16.2 million and \$38.9 million decrease in revenue of our SRAM products driven by the decreased demand from wireless and wireline end customers, a \$7.6 million decrease in revenue due to the divestiture of our Image Sensors business unit during the three months ended April 3, 2011.

**Data Communications Division:**

Revenues from the Data Communications Division decreased by \$10.1 million in the third quarter of fiscal 2012 and \$34.7 million in the first three quarters of fiscal 2012, or approximately 34.9% and 37.0%, respectively, compared to the same prior-year periods primarily due to the decreases in sales of our West Bridge controllers and other USB-related products.

**Emerging Technologies Division:**

Revenues from Emerging Technologies Division increased by \$0.6 million in the third quarter of fiscal 2012 and \$2.2 million in the first three quarters of fiscal 2012, respectively, compared to the same prior-year periods primarily due to the overall increase in demand as certain of our Emerging Technologies have begun initial production ramps.

**Cost of Revenues/Gross Margins**

Three Months Ended		Nine Months Ended	
September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011

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(In thousands)				
Cost of revenues	\$ 92,959	\$ 115,789	\$ 280,798	\$ 336,081
Gross Margin	54.2%	56.3%	52.4%	55.4%

Gross margin percentage decreased to 54.2% in the third quarter of fiscal 2012 from 56.3% in the third quarter of fiscal 2011 and decreased to 52.4% in the first three quarters of fiscal 2012 from 55.4% in the first three quarters of fiscal 2011. In the third quarter of fiscal 2012 gross margin decreased by 2.1 percentage points compared to the third quarter of fiscal 2011 primarily due to product mix and lower fixed cost absorption in our factories.

In the first three quarters of fiscal 2012 gross margin decreased by 3.0 percentage points compared to the first three quarters of fiscal 2011 primarily due to (i) \$7.5 million patent license fee recorded during the first three quarters of fiscal 2012 related to a Patent

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License Agreement discussed in Note 8 of Notes to Condensed Consolidated Financial Statements under Part I, Item 1 and (ii) the impact of the negative gross margins of our majority-owned subsidiaries (i.e., Emerging Technologies), particularly Deca Technologies, Inc. which has commenced revenue generating activities during the first three quarters of fiscal 2012.

**Research and Development ( R&D ) Expenses**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
R&D expenses	\$ 46,908	\$ 46,266	\$ 142,822	\$ 143,409
As a percentage of revenues	23.1%	17.5%	24.2%	19.0%

R&D expenditures increased by \$0.6 million in the third quarter of fiscal 2012 compared to the same prior-year period. The decrease was primarily attributable to a decrease in variable bonus-related expenses of \$2.3 million. These decreases were partially offset by a \$1.6 million expense recorded for the increase in value of deferred compensation plan. As a percentage of revenues, R&D expenses were higher in the third quarter of fiscal 2012 driven by the decrease in total revenues in the same quarter.

R&D expenditures decreased by \$0.6 million in the first three quarters of fiscal 2012 compared to the same prior-year period. The decrease was primarily attributable to a decrease in direct and indirect labor expenses, particularly variable bonus-related expenses. As a percentage of revenues, R&D expenses were higher in the first three quarters of fiscal 2012 driven by the decrease in total revenues in the same period.

Our future operating results depend to a considerable extent on our ability to maintain a competitive advantage. Our research and development efforts are focused on the development and design of new semiconductor products, as well as the continued development of advanced software platforms primarily for our programmable solutions and investments in new products for our Emerging Technologies Division. Our goal is to increase efficiency in order to maintain our competitive advantage. We continue to make substantial investments in R&D to ensure the availability of innovative products that meet the current and projected requirements of our customers most advanced designs.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(In thousands)			
SG&A expenses	\$ 47,328	\$ 55,453	\$ 159,776	\$ 172,587
As a percentage of revenues	23.3%	20.9%	27.1%	22.9%

SG&A expenses decreased by \$8.1 million in the third quarter of fiscal 2012 compared to the same prior-year period. The decrease was primarily attributable to a \$7.4 million decrease in stock-based compensation and a \$6.2 million decrease in direct and indirect labor expenses, particularly \$2.1 in variable bonus-related expenses. These decreases were partially offset by an increase of \$3.4 million expenses related to an increase in value of the deferred compensation plan.

SG&A expenses decreased by \$12.8 million in the first three quarters of fiscal 2012 compared to the same prior-year period. The decrease was primarily attributable to \$10.0 million decrease in direct and indirect labor expenses, particularly a \$5.6 million decrease in variable bonus-related expenses and a \$5.6 million decrease in stock-based compensation due to lower stock price. These direct and indirect labor costs were partially offset by an increase of \$3.6 million expenses related to increase in value of deferred compensation plan

**Table of Contents*****Gain on Divestiture***

As part of our continued efforts to focus on programmable products including our flagship PSoC® programmable system-on-chip solutions and our TrueTouch touch-sensing controllers, we divested our image sensors product families by selling them to ON Semiconductor Corporation for a total cash consideration of \$34.0 million during the three months ended April 3, 2011. In connection with the divestiture, we recorded a gain of \$34.3 million in our Condensed Consolidated Statement of Operations for the three months ended April 3, 2011. We did not have any divestitures during the nine months ended September 30, 2012.

***Income Taxes***

Our income tax benefit was \$0.2 million for the three months ended September 30, 2012 and tax expense was \$4.1 million for the three months ended October 2, 2011. Our income tax expense was \$2.7 million and our tax benefit was \$9.0 million for the nine months ended September 30, 2012 and October 2, 2011, respectively. The tax provision for the third quarter of fiscal 2012 and first nine months of fiscal 2012 was primarily attributable to non-U.S. taxes on income earned in foreign jurisdictions, partially offset by release of previously accrued income taxes due to expired statute of limitations in foreign jurisdictions and an operating tax benefit due to tax expense recorded in other comprehensive income. The tax expense for the third quarter and the tax benefit for the first nine months of fiscal 2011 was primarily attributable to a release of previously accrued taxes and interest of \$18.4 million due to the completion of an income tax examination, and expired statutes of limitations in foreign jurisdictions, partially offset by non-U.S. taxes on income earned in foreign jurisdictions.

**LIQUIDITY AND CAPITAL RESOURCES**

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

	September 30, 2012	As of January 1, 2012
	(In thousands)	
Cash and cash equivalents	\$ 162,329	\$ 99,717
Short-term investments	57,116	66,613
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 219,445</b>	<b>\$ 166,330</b>
 Total current assets	 \$ 482,929	 \$ 405,650
<b>Total current liabilities</b>	<b>362,904</b>	<b>326,460</b>
 Working capital	 \$ 120,025	 \$ 79,190

**Key Components of Cash Flows**

	September 30, 2012	Nine Months Ended October 2, 2011
	(In thousands)	
Net cash provided by operating activities	\$ 117,695	\$ 218,327
Net cash provided by (used in) investing activities	\$ (17,474)	\$ 67,369
<b>Net cash used in financing activities</b>	<b>\$ (37,609)</b>	<b>\$ (484,619)</b>

**Nine Months Ended September 30, 2012:**

During the nine months ended September 30, 2012, cash and cash equivalents increased by approximately \$62.6 million primarily due to the cash we generated from our operating activities of approximately \$117.7 million. This increase was partially offset by the \$55.1 million cash we used in our financing and investing activities, primarily related to the repurchase of our common stock and purchases of property plant and equipment.

*Operating Activities*

The \$117.7 million cash generated from our operating activities during the nine months ended September 30, 2012 was primarily due to \$108.8 million in net favorable non-cash adjustments to our net income, an increase in accounts payable and other liabilities and deferred income on sales to distributors, partially offset by the increase in accounts receivable and other current and long-term.

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The key changes in our working capital as of September 30, 2012 compared to January 1, 2012 were as follows:

Total cash, cash equivalents and short-term investments increased by \$62.6 million primarily due to the line of credit and Credit Facility proceeds.

Accounts receivable increased by \$21.7 million primarily due to an increase in distributor shipments.

Other current and long- term assets increased by \$10.2 million primarily due to an increase in miscellaneous receivables and prepaid expenses.

Net borrowings of \$198 million in fiscal 2012 from the Credit Facility.

Other current liabilities increased by \$11.8 million primarily due to the accrual of a patent license fee related to a Patent License Agreement discussed in Note 8 of Notes to Condensed Consolidated Financial Statements under Part I, Item 1.

### *Investing Activities*

During the nine months ended September 30, 2012, we used approximately \$17.5 million of cash from our investing activities primarily due to \$97.5 million of purchases of available-for-sale investments, \$25.2 million of cash used for property and equipment expenditures and \$7.2 million of cash was used for other investing activities, partially offset from net proceeds from the sales or maturities of investments totaling \$112.1 million.

### *Financing Activities*

During the nine months ended September 30, 2012, we used approximately \$37.6 million of cash in our financing activities. The net cash used by our financing activities was primarily due to \$179.3 million of cash we used to repurchase shares of our stock in the open market, \$59.7 million used to repay equipment leases and loans, \$47.2 million dividends paid and \$20.2 million payments related to statutory income tax withholdings on vested restricted stock awards in lieu of issuing shares of stock (considered as part of our stock buyback program). This amount was partially offset by \$248.0 million of cash we drew from our line of credit and Credit Facility and \$20.4 million of net proceeds from the issuance of common shares under our employee stock plans.

## **Nine Months Ended October 2, 2011:**

### *Operating Activities*

During the nine months ended October 2, 2011, net cash provided by operating activities was \$218.3 million which was primarily driven by higher net income adjusted for certain non-cash items including depreciation and amortization, stock-based compensation and partially offset by the gain on divestiture and changes in our working capital.

### *Investing Activities*

During the nine months ended October 2, 2011, we generated approximately \$67.4 million of cash from our investing activities which was primarily due to \$105.6 million of net proceeds from the sales or maturities and purchases of available-for-sale investments and \$34 million in proceeds from the sale of our Image Sensors business unit, partially offset by \$71.8 million of property and equipment expenditures.

### *Financing Activities*

During the nine months ended October 2, 2011, we used approximately \$484.6 million of cash in our financing activities. The net cash used in our financing activities was primarily due to \$364.0 million of cash we used to repurchase shares of our stock in the open market and \$15.3



million we paid in cash dividends, partially offset by \$56.9 million net proceeds from the issuance of common shares under our employee stock plans.

***Liquidity and Contractual Obligations***

**Liquidity**

Stock Buyback Programs:

On September 20, 2011, our Board of Directors authorized a new \$400 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, other uses of cash, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at the discretion of our board of

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directors. For the three months ended September 30, 2012, we used approximately \$81.6 million from this program to repurchase approximately 7.3 million shares at an average share price of \$11.20. Since we announced the new \$400 million stock buyback program in September 2011 through the end of the third quarter of fiscal 2012, we used approximately \$279.3 million from this program to repurchase approximately 19.9 million shares at an average share price of \$14.01. As of September 30, 2012, the remaining authorized amount that can be used to repurchase shares under the program was approximately \$120.7 million.

**Contractual Obligations**

The following table summarizes our contractual obligations as of September 30, 2012:

	Total	2012	2013 and 2014 (In thousands)	2015 and 2016	After 2016
Purchase obligations (1)	\$ 73,940	\$ 72,781	\$ 1,159	\$	\$
Operating lease commitments	23,425	4,400	10,084	6,083	2,858
Capital lease commitments	16,724	734	5,872	9,517	601
Patent license fee commitments (2)	12,800	7,000		5,800	
Total contractual obligations	\$ 126,889	\$ 84,915	\$ 17,115	\$ 21,400	\$ 3,459

- (1) Purchase obligations primarily include non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on us and that specify all significant terms, including quantity, price and timing.
- (2) On April 30, 2012, we entered into a patent license agreement whereby we have committed to pay a total patent license fee of \$14.0 million in fiscal 2012. We have also committed to pay another \$5.8 million on or before April 30, 2016 representing fees for future purchases of patents and patent related services.

**Equity Investment Commitments**

As disclosed in Note 5 of Notes to Condensed Consolidated Financial Statements under Part I, Item 1 *Financial Statements*, we have committed to purchase additional preferred stock from a company in a series of subsequent closings subject to certain performance milestones that must be fulfilled within a defined and agreed upon timeline. Our future commitment to purchase additional preferred stock is approximately \$0.6 million in fiscal 2012, \$60.8 million in fiscal 2013 and \$17.8 million in fiscal 2014 subject to the attainment of certain milestones and the timing of additional capital requests which could vary substantially.

**Capital Resources and Financial Condition**

Our long-term strategy is to maintain a minimum amount of cash and cash equivalents for operational purposes and to invest the remaining cash in interest-bearing and highly liquid cash equivalents, debt securities and the purchase of our stock through our stock buyback program and payments of regularly scheduled cash dividends. As of September 30, 2012, in addition to \$162.3 million in cash and cash equivalents, we had \$57.1 million invested in short-term investments for a total cash and short-term investment position of \$219.4 million that is available for use in our current operations.

As of September 30, 2012, approximately 41% of our cash, cash equivalents and available-for-sale investments are funds held outside the United States. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies. All offshore balances are exposed to local, political, banking, currency control and other risks. In addition, these amounts, if repatriated may be subject to tax and other transfer restrictions.

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

enter into strategic initiatives including the acquisition of other companies and provide us with additional flexibility to take advantage of other business opportunities that arise.

***Non-GAAP Financial Measures***

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles ( Non-GAAP ) financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. To supplement our condensed consolidated financial results presented in accordance with GAAP, we use Non-GAAP financial measures which are

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adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described below. Management believes that these Non-GAAP financial measures reflect an additional and useful way of viewing aspects of our operations that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our business and operations. Non-GAAP financial measures used by us include gross margin, research and development expenses, selling, general and administrative expenses, operating income or loss, net income or loss and basic and diluted net income or loss per share.

Our Non-GAAP measures primarily exclude stock-based compensation, acquisition-related charges, impairments to goodwill, gain or losses on divestiture, investment-related gains and losses, discontinued operations, restructuring costs and other special charges and credits. Management believes these Non-GAAP financial measures provide meaningful supplemental information regarding our strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these Non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results.

We use each of these Non-GAAP financial measures for internal managerial purposes, when providing our financial results and business outlook to the public, to facilitate period-to-period comparisons and are used to formulate our formula driven cash bonus plan and any milestone based stock awards. Management believes that these Non-GAAP measures provide meaningful supplemental information regarding our operational and financial performance of current and historical results. Management uses these Non-GAAP measures for strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these Non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results.

The following table shows our Non-GAAP financial measures:

	<b>Three Months Ended</b>	
	<b>September 30, 2012</b>	<b>October 2, 2011</b>
	<b>(In thousands, except per share amounts)</b>	
Non-GAAP gross margin	\$ 115,928	\$ 153,396
Non-GAAP research and development expenses	\$ 41,457	\$ 41,576
Non-GAAP selling, general and administrative expenses	\$ 39,323	\$ 41,996
Non-GAAP operating income	\$ 35,148	\$ 69,824
Non-GAAP net income attributable to Cypress	\$ 32,322	\$ 69,237
Non-GAAP net income per share attributable to Cypress diluted	\$ 0.20	\$ 0.37

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

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## CYPRESS SEMICONDUCTOR CORPORATION

## RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES

(In thousands, except per-share data)

(Unaudited)

	Three Months Ended	
	September 30, 2012	October 2, 2011
	(In thousands, except per share amounts)	
<b>GAAP gross margin</b>	\$ 110,056	\$ 148,954
Stock-based compensation expense	4,526	5,002
Changes in value of deferred compensation plan	217	(560)
Impairment of assets and others	1,129	
<b>Non-GAAP gross margin</b>	\$ 115,928	\$ 153,396
<b>GAAP research and development expenses</b>	\$ 46,908	\$ 46,266
Stock-based compensation expense	(5,062)	(5,894)
Changes in value of deferred compensation plan	(389)	1,204
<b>Non-GAAP research and development expenses</b>	\$ 41,457	\$ 41,576
<b>GAAP selling, general and administrative expenses</b>	\$ 47,328	\$ 55,453
Stock-based compensation expense	(6,513)	(13,939)
Acquisition-related expense	(547)	
Changes in value of deferred compensation plan	(945)	2,464
Impairment of assets and other		(1,982)
<b>Non-GAAP selling, general and administrative expenses</b>	\$ 39,323	\$ 41,996
<b>GAAP operating income</b>	\$ 15,047	\$ 45,633
Stock-based compensation expense	16,101	24,835
Changes in value of deferred compensation plan	1,551	(4,228)
Acquisition-related expenses	1,254	731
Restructuring charges	66	871
Impairment of assets and others	1,129	1,982
<b>Non-GAAP operating income</b>	\$ 35,148	\$ 69,824
<b>GAAP net income attributable to Cypress</b>	\$ 14,332	\$ 39,981
Stock-based compensation	16,101	24,835
Impairment of assets and other	1,129	1,982
Acquisition-related expenses	1,254	731
Restructuring charges	66	871
Changes in value of deferred compensation plan	48	119
Investment-related gains/losses	1,638	(1,538)
Tax effects	(2,246)	2,256

<b>Non-GAAP net income attributable to Cypress</b>	<b>\$ 32,322</b>	<b>\$ 69,237</b>
<b>GAAP net income per share attributable to Cypress-diluted</b>	<b>\$ 0.09</b>	<b>\$ 0.22</b>
Stock-based compensation expense and other	0.10	0.13
Restructuring charges		0.01
Acquisition-related expenses	0.01	
Investment related gains/losses	0.01	(0.01)
Impairment of assets and other	0.01	0.01
Tax effects	(0.02)	0.01
<b>Non-GAAP net income per share attributable to Cypress-diluted</b>	<b>\$ 0.20</b>	<b>\$ 0.37</b>

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risks**

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

We are also exposed to interest rate risk related to our indebtedness, which includes our senior secured revolving credit facility. For further information, see Note 9 Debt and Equity Transactions in Part I, Item 1 of this Form 10-Q. A hypothetical increase in interest rates of 1.0% would result in a corresponding change in interest expense of approximately \$2.0 million per year.

#### **Foreign Currency Exchange Risk**

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

We analyzed our foreign currency exposure, including our hedging strategies, to identify assets and liabilities denominated in other currencies. For those assets and liabilities, we evaluated the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar. We have determined that there would be an immaterial effect on our results of operations from such a shift.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

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

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

#### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.





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### **PART II OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

The information required by this item is included in Note 8 of Notes to Condensed Consolidated Financial Statements under Item 1, Part 1 of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

#### **ITEM 1A. RISK FACTORS**

Aside from the addition of the risk factors below, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended January 1, 2012.

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

We routinely incur indebtedness to finance our operations and from time to time we have significant amounts of outstanding indebtedness and substantial debt service requirements. On June 26, 2012, we entered into a five-year senior secured revolving credit facility for up to \$430 million with a group of lenders led by Morgan Stanley Senior Funding, Inc. The credit facility contains customary affirmative, negative and financial covenants, including a maximum senior secured leverage ratio, a maximum total leverage ratio, minimum fixed charge coverage ratio, and a minimum liquidity of at least \$150 million. Our ability to meet our payment and other obligations and covenants under our indebtedness depends on our ability to generate significant cash flow. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. There is no assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or any amended credit facilities or otherwise, in an amount sufficient to enable us to meet payment obligations under indebtedness we may under take from time to time. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under any indebtedness we owe. As of September 30, 2012, our outstanding debt included \$15.7 million in capital leases, \$12.2 million in equipment loans and \$198 million related to our recent credit facility. See Note 9 for more information on our Senior Secured Revolving Credit Facility, Note 9 for more information on equipment loans, Note 8 for more information on capital leases and Note 5 for more information on advances received for the sale of auction rate securities.

***Acquisition and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.***

Acquisitions are an important element of our overall corporate strategy and use of capital. These transactions could be material to our financial condition and results of operations. In addition to the recent acquisition of Ramtron International Corporation, we also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include, but are not limited to:

Diversion of management time and focus from operating our business to integration challenges;

Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.

Successfully transitioning the current customer, supplier, foundry and other partnering relationships of the acquired company;

Implementation or remediation of controls, procedures, and policies at the acquired company;

Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;

In the case of acquired companies with global operations, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.

Failure to successfully further develop the acquired business or technology.

Liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.

Pending litigation or other known or unknown claims in connection with the acquired company, including claims by stockholders for breach of fiduciary duties, terminated employees, customers, former stockholders, or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or current acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally. Our inability to conduct due diligence in advance of a public company acquisition such as the Ramtron transaction increases the risk associated with the integration issues noted above and could result in unanticipated liabilities or financial results that could cause us not to realize the anticipated benefits of such an acquisition.

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Current and future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition or results. Also, the anticipated benefit of many of our acquisitions may not materialize.

*There can be no assurance that our cash distributions on common stock will continue to be considered a return of capital.*

In the second quarter of fiscal 2011, our Board of Directors adopted a policy pursuant to which the Company would pay quarterly cash distributions on our common stock. We intend to continue to pay such distributions subject to capital availability and periodic determinations by our Board of Directors that cash distributions are in the best interest of our shareholders and are in compliance with all laws and agreements of Cypress applicable to the declaration and payment of cash distributions. Based upon our lack of current earnings and profits, in the United States, these distributions have been treated for income tax purposes as a return of capital.

Future distributions may be affected by, among other factors:

our views on potential future capital requirements for investments in acquisitions and the funding of our research and development;

stock repurchase programs;

changes in federal and state income tax laws or corporate laws; and

changes to our business model.

Our distribution payments may change from time to time, and we cannot provide assurance that we will continue to declare distributions in any particular amounts or at all. In addition, we cannot provide assurance that the cash distributions will continue to be treated for income tax purposes as a return of capital. A reduction in our distribution payments or a change in the tax treatment of future distributions could have a negative effect on our stock price.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
**ISSUER PURCHASES OF EQUITY SECURITIES**

On September 20, 2011, our Board of Directors (the "Board") authorized a new \$400 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, other uses of cash, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at the discretion of our Board.

The table below sets forth information with respect to repurchases of our common stock made during the half of fiscal 2012 under this program:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (In thousands, except per-share amounts)</b>	<b>Total Shares Purchased as Part of Publicly Announced Programs</b>	<b>Total Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program</b>
Remaining balance available for purchases at the beginning of the period				\$ 320,189
<b>Repurchases during Q1-2012 (1):</b>				
January 2, 2012 January 29, 2012	97	\$ 16.90	97	\$ 318,543
January 30, 2012 February 26, 2012	1,087	\$ 17.87	1,087	\$ 299,124
February 27, 2012 April 1, 2012	4,887	\$ 15.75	4,887	\$ 222,160
Total repurchases during Q1-2012	6,071	\$ 16.15	6,071	\$ 222,160
<b>Repurchases during Q2-2012 (1):</b>				
April 2, 2012 April 29, 2012	6	\$ 15.14	6	\$ 222,077
April 30, 2012 May 27, 2012	1,402	\$ 13.09	1,402	\$ 203,715
May 28, 2012 July 1, 2012	115	\$ 12.44	115	\$ 202,282
Total repurchases during Q2-2012	1,523	\$ 13.05	1,523	\$ 202,282
<b>Repurchases during Q3-2012 (1):</b>				
July 2, 2012 July 29, 2012	3,743	\$ 11.30	3,743	\$ 159,985
July 30, 2012 August 26, 2012	2,060	\$ 10.72	2,060	\$ 137,901
August 27, 2012 September 30, 2012	1,482	\$ 11.61	1,482	\$ 120,696
Total repurchases during Q3-2012	7,285	\$ 11.20	7,285	\$ 120,696
Grand total repurchases during Q1, Q2 and Q3 2012	14,879		14,879	

(1) Monthly information is presented by reference to the Company's fiscal months during the three quarters of fiscal 2012.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**Table of Contents****ITEM 5. OTHER INFORMATION****Quarterly Executive Incentive Payments**

On November 1, 2012, Cypress's Compensation Committee of the Board of Directors (the "Compensation Committee") approved incentive payments to our executive officers for the third quarter of fiscal 2012 performance incentive plans. These payments were earned in accordance with the terms of our Key Employee Bonus Plan (the "KEBP") and the Performance Bonus Plan (the "PBP").

The payments were determined based upon the financial performance of Cypress and each executive's performance. The performance measures under the KEBP include our non-GAAP profit-before-taxes percentage as well as individual strategic, operational and financial goals established for each executive. The following table sets forth the cash payments to our Named Executive Officers under the KEBP and the PBP in the third quarter of fiscal 2012:

Named Executive Officers	KEBP	PBP
T.J. Rodgers, President and Chief Executive Officer		\$ 13,262
Brad W. Buss, Executive Vice President, Finance & Administration and Chief Financial Officer	\$ 3,944	
Christopher Seams, Executive Vice President, Sales, Marketing and Operations	\$ 3,626	
Cathal Phelan, Executive Vice President, Consumer and Computation Division	\$ 3,298	
Paul Keswick, Executive Vice President, New Product Development	\$ 1,768	

Mr. Paul Keswick, our Executive Vice President of New Product Development, was paid an incentive payment amounting to \$9,006 in accordance with the terms of our Design Bonus Plan (the "DBP"). The payment amount was determined based upon the performance of Mr. Keswick during the third quarter of fiscal 2012. Mr. Keswick is the only named executive officer participant to the DBP as it is a bonus plan available to our design and certain product development engineers.

Additionally, there were incentive payments for the third quarter of fiscal 2012 under the KEBP, totaling \$20,459, to five other senior executive officers who are not Named Executive Officers.

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CYPRESS SEMICONDUCTOR CORPORATION**

Date: November 2, 2012

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



**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by References</b>			<b>Filed</b>
		<b>Form</b>	<b>Filing Date</b>	<b>File No.</b>	<b>Herewith</b>
10.31	Credit and Guaranty Agreement Revolving Credit Facility.	8-K	6/26/2012	001-10079	
10.32	Pledge and Security Agreement.	8-K	6/26/2012	001-10079	
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
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Furnished herewith.