CYPRESS SEMICONDUCTOR CORP /DE/
Form 10-Q/A
January 23, 2001

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**
**Amendment No. 1**

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

For the quarterly period ended October 1, 2000

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)*

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

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

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

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 |X| No |_|

The total number of shares of the registrant s common stock outstanding as of October 29, 2000, was 131,472,000.

**CYPRESS SEMICONDUCTOR CORPORATION**

**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands)**
**(Unaudited)**
**(Restated, see Note 2)**

| | October 1, 2000 | January 2, 2000 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $531,302 | $159,088 |
| Short-term investments | 299,943 | 121,859 |
| Total cash, cash equivalents and short-term investments | 831,245 | 280,947 |
| Accounts receivable, net of allowances of $3,680 at October 1, 2000 and $3,471 at January 2, 2000 | 181,393 | 104,143 |
| Inventories, net | 98,157 | 98,786 |
| Other current assets | 92,878 | 78,117 |
| Total current assets | 1,203,673 | 561,993 |
| Property, plant and equipment, net | 512,296 | 358,206 |
| Long-term investments | 252,737 | 111,324 |
| Restricted investments | 61,031 | 61,198 |
| Other assets | 245,435 | 54,237 |
| Total assets   | $2,275,172 | $1,146,958 |

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



**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands)**
**(Unaudited)**
**(Restated, see Note 2)**

| | October 1, 2000 | January 2, 2000 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |

| | October 1, 2000 | January 2, 2000 |
|---|---|---|
| Accounts payable | $81,133 | $103,691 |
| Accrued liabilities | 97,425 | 56,291 |
| Deferred income on sales to distributors | 32,740 | 21,061 |
| Income taxes payable | 80,833 | 20,311 |
| Total current liabilities | 292,131 | 201,354 |
| Convertible subordinated notes | 730,500 | 160,000 |
| Deferred income tax | 103,604 | 56,100 |
| Other long-term liabilities | 9,935 | 10,884 |
| Total liabilities | 1,136,170 | 428,338 |
| Commitments and Contingencies (Note 17) | | |
| Stockholders equity: | | |
| Preferred stock, $0.01 par value, 5,000 shares authorized; none issued and outstanding | | |
| Common stock, $0.01 par value, 650,000 and 250,000 shares authorized; 129,294 and 119,092 issued; 124,313 and 114,111 outstanding at October 1, 2000 and January 2, 2000 | 1,293 | 1,191 |
| Additional paid-in capital | 795,246 | 560,742 |
| Notes receivable from stockholders | (2,128) | (8,186) |
| Retained earnings | 417,315 | 237,597 |
| | 1,211,726 | 791,344 |
| Less shares of common stock held in treasury at cost: 4,981 and 4,981 shares at October 1, 2000 and January 2, 2000 | (72,724) | (72,724) |
| Total stockholders equity | 1,139,002 | 718,620 |
| Total liabilities and stockholders equity | $2,275,172 | $1,146,958 |

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



**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per-share data)**
**(Unaudited)**
**(Restated, see Note 2)**

| | Three Months Ended | |
|---|---|---|
| | October 1, 2000 | October 3, 1999 |
| Revenues | $352,687 | $195,016 |
| Costs and expenses: | | |
| Cost of revenues | 147,783 | 105,514 |
| Research and development | 47,954 | 33,862 |
| Selling, general and administrative | 40,350 | 27,879 |
| Acquisition and merger costs | 35,557 | 2,005 |

| | Three Months Ended | |
|---|---|---|
| Total operating costs and expenses | 271,644 | 169,260 |
| Operating income | 81,043 | 25,756 |
| Interest expense | (7,953) | (2,468) |
| Interest income and other | 16,987 | 4,218 |
| Income before income taxes | 90,077 | 27,506 |
| Provision for income taxes | 28,028 | 2,259 |
| Net income | $62,049 | $25,247 |
| Net income per share: | | |
| Basic | $0.51 | $0.23 |
| Diluted | $0.45 | $0.21 |
| Shares used in per share calculations: | | |
| Basic | 121,139 | 110,982 |
| Diluted | 148,474 | 120,932 |

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



**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per-share data)**
**(Unaudited)**
**(Restated, see Note 2)**

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2000 | October 3, 1999 |
| Revenues | $917,762 | $525,134 |
| Costs and expenses: | | |
| Cost of revenues | 413,752 | 294,483 |
| Research and development | 129,089 | 100,103 |
| Selling, general and administrative | 110,489 | 79,680 |
| Acquisition and merger costs | 47,358 | 11,818 |
| Restructuring credits | (485) | (3,811) |
| Total operating costs and expenses | 700,203 | 482,273 |
| Operating income | 217,559 | 42,861 |
| Interest expense | (18,020) | (7,258) |
| Interest income and other | 43,704 | 11,367 |
| Income before income taxes | 243,243 | 46,970 |
| Provision for income taxes | 63,525 | 4,455 |
| Net income | $179,718 | $42,515 |

| | Nine Months Ended | |
|---|---|---|
| Net income per share: | | |
| Basic | $1.52 | $0.40 |
| Diluted | $1.34 | $0.38 |
| Shares used in per share calculations: | | |
| Basic | 118,389 | 106,392 |
| Diluted | 143,112 | 112,789 |

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



**CYPRESS SEMICONDUCTOR CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**
**(Restated, see Note 2)**

| | Nine Months Ended | |
|---|---|---|
| | **October 1, 2000** | **October 3, 1999** |
| Cash flow from operating activities: | | |
| Net income | $179,718 | $42,515 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 102,650 | 81,337 |
| Gain on sale of FCT product line | (5,000) | |
| Acquired in-process research and development | 32,425 | 4,019 |
| Other non-recurring costs | 1,964 | |
| Restructuring credits | (485) | (3,811) |
| Loss on sales of property, plant and equipment | 1,408 | 711 |
| Amortization of debt issuance costs | 2,539 | 797 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (77,034) | (23,815) |
| Inventories | (384) | (21,136) |
| Other assets | (14,070) | (10,242) |
| Accounts payable and accrued liabilities | 14,756 | 20,389 |
| Deferred income | 11,679 | 6,120 |
| Income taxes payable | 60,522 | 11,044 |
| Net cash flow generated from operating activities | 310,688 | 107,928 |
| Cash flow from investing activities: | | |
| Purchase of investments | (424,472) | (138,746) |
| Sale or maturities of investments | 104,975 | 35,605 |
| Notes Receivable | | (7) |
| Cash acquired in acquisition | 8,617 | |
| Acquisition of Anchor | | (14,956) |
| Acquisition of Arcus | | (9,883) |
| Acquisition of technology rights | | (6,950) |
| Acquisition of property, plant and equipment | (250,714) | (76,799) |
| Proceeds from sale of FCT product line | 7,500 | |
| Proceeds from the sale of equipment | 325 | 8,679 |
| Net cash flow used for investing activities | (553,769) | (203,057) |

| | Nine Months Ended | |
|---|---|---|
| Cash flow from financing activities: | | |
| Issuance of convertible subordinated notes, net of issuance costs | 554,812 | |
| Issuance of common shares (1) | 55,783 | |
| Re-issuance of treasury shares | | 92,958 |
| Repayment of stockholders notes | 6,058 | (2,653) |
| Issuance of notes to employees | | (7,892) |
| Borrowing from (repayment of) notes payable and line of credit | (1,085) | 499 |
| Other long-term liabilities | (273) | (1,411) |
| Net cash flow generated by financing activities | 615,295 | 81,501 |
| Net change in cash during the quarter ended March 31, 1999 for merger | | (2,339) |
| Net increase in cash and cash equivalents | 372,214 | (15,967) |
| Cash and cash equivalents, beginning of period | 159,088 | 151,390 |
| Cash and cash equivalents, end of period | $531,302 | $135,423 |
| Supplemental Disclosure of Non-Cash Flow Information | | |
| (1) Common stock and options issued for acquisitions | 171,371 | 6,200 |

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

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**CYPRESS SEMICONDUCTOR CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**For the Quarter Ended October 1, 2000**

**(Unaudited)**

**Note 1 Interim Statements**

In the opinion of management of Cypress Semiconductor Corporation ( Cypress ), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information included therein. Cypress believes that the disclosures are adequate to make the information not misleading. However, it is suggested that this financial data be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended January 2, 2000 included in Cypress s 1999 Annual Report on Form 10-K, Cypress s Current Report on Form 8-K dated March 9, 2000, and Cypress s Current Report on Form 8-K/A dated June 16, 2000.

Beginning with its 1998 fiscal year-end, Cypress ended its fiscal months, quarters and years on Sundays. For interim financial reporting purposes, Cypress reports on a 13-week quarter. The results of operations for the three-month period ended October 1, 2000 are not necessarily indicative of the results to be expected for the full year.

**Note 2 Restatement**

The financial statements as of October 1, 2000 and January 2, 2000 and for the three and nine month periods ended October 1, 2000 and October 3, 1999 included in this Amendment to the Quarterly Report on Form 10-Q have been restated to reflect the acquisition of Silicon Light Machines as a purchase pursuant to Accounting Principles Board Opinion No. 16 Business Combinations . Silicon Light Machines was previously accounted for using the pooling of interests method. This change in accounting method was due to Cypress s Board of Directors authorizing the repurchase of up to five million shares of Cypress common stock on November 30, 2000. As a result, the financial statements as of October 1, 2000 and January 2, 2000 and for the three and nine month periods ended October 1, 2000 and October 3, 1999 have been restated from the amounts previously reported to reflect treatment of the Silicon Light Machines as a purchase.

The following tables reflect selected line items that were effected by this change.

| | October 1, 2000 | | January 2, 2000 | |
|---|---|---|---|---|
| | Previously Reported | Restated | Previously Reported | Restated |
| | (In thousands) | | (In thousands) | |
| Cash | $ 531,302 | $ 531,302 | $ 165,910 | $ 159,088 |
| Total current assets | 1,203,673 | 1,203,673 | 569,055 | 561,993 |
| Other assets | 74,990 | 245,435 | 52,026 | 54,237 |
| Total assets | 2,104,727 | 2,275,172 | 1,153,593 | 1,146,958 |
| Total current liabilities | 295,129 | 292,131 | 202,372 | 201,354 |
| Deferred income taxes | 58,844 | 103,604 | 56,100 | 56,100 |
| Total liabilities | 1,094,408 | 1,136,170 | 429,917 | 428,338 |
| Additional paid in capital | 669,085 | 795,246 | 595,685 | 560,742 |
| Retained Earnings | 414,791 | 417,315 | 207,677 | 237,597 |
| Total stockholders equity | 1,010,319 | 1,139,002 | 723,676 | 718,620 |

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| | Three Months Ended October 1, 2000 | | Three Months Ended October 3, 1999 | |
|---|---|---|---|---|
| | Previously Reported | Restated | Previously Reported | Restated |
| | (In thousands,except per share data) | | | |
| Revenues | $356,229 | $352,687 | $194,871 | $195,016 |
| Research and Development | 47,893 | 47,954 | 35,124 | 33,862 |
| Selling, general and administrative | 41,010 | 40,350 | 28,425 | 27,879 |
| Acquisition and merger costs | 2,951 | 35,557 | 2,005 | 2,005 |
| Operating income | 116,589 | 81,043 | 23,803 | 25,756 |
| Net income | 97,223 | 62,049 | 23,263 | 25,247 |
| Net income per share | | | | |
| Basic | $ 0.79 | $ 0.51 | $ 0.20 | $ 0.23 |
| Diluted | $ 0.68 | $ 0.45 | $ 0.19 | $ 0.21 |

| | Nine Months Ended October 1, 2000 | | Nine Months Ended October 3, 1999 | |
|---|---|---|---|---|
| | Previously Reported | Restated | Previously Reported | Restated |
| | (In thousands, except per share data) | | | |
| Revenues | $921,081 | $917,762 | $524,989 | $525,134 |
| Research and Development | 134,277 | 129,089 | 105,116 | 100,103 |
| Selling, general and administrative | 113,413 | 110,489 | 81,123 | 79,680 |
| Acquisition and merger costs | 14,752 | 47,358 | 11,818 | 11,818 |
| Operating income | 245,357 | 217,559 | 36,260 | 42,861 |
| Net income | 207,114 | 179,718 | 35,769 | 42,515 |

| | Nine Months Ended October 1, 2000 | | Nine Months Ended October 3, 1999 | |
|---|---|---|---|---|
| Net income per share | | | | |
| Basic | $ 1.71 | $ 1.52 | $ 0.33 | $ 0.40 |
| Diluted | $ 1.49 | $ 1.34 | $ 0.31 | $ 0.38 |

**Note 3 Acquisition of Silicon Light Machines (Restated)**

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

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



| | (In thousands) |
|---|---|
| Fair value of tangible net assets | $ 17,017 |
| In-process research and development | 30,400 |
| Current technology | 150,080 |
| Assembled workforce | 6,580 |
| Deferred Income Taxes | (44,760) |
| Excess of purchase price over identifiable net assets acquired | 4,696 |
| Total | $164,013 |

The valuation method used to value the in-process technology of SLM is a form of discounted cash flow method commonly known as the percentage of completion approach whereby the cash flow derived from the technology is multiplied by the percentage of completion of the in-process technology. This approach is a widely recognized appraisal method and is commonly used to value technology assets. The value of the in-process technology of SLM is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 30.0%, which we believe was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying the elapsed time invested in the project as a ratio of the total time required to complete the project to technical and commercial feasibility. Schedules were based on management s estimate of tasks completed, the tasks to be completed to bring the project to technical and commercial feasibility.

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

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

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

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

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



| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **October 1, 2000** | **October 3, 1999** | **October 1, 2000** | **October 3, 1999** |
| | **(In thousands, except per share data)** | | | |
| Total revenue | $356,229 | $194,871 | $921,081 | $524,989 |
| Net income (loss) | 93,993 | 14,037 | 187,753 | 4,508 |
| Net income per share | | | | |
| Basic | $ 0.78 | $ 0.13 | $ 1.59 | $ 0.04 |
| Diluted | $ 0.67 | $ 0.12 | $ 1.39 | $ 0.04 |

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

**Note 4 Acquisition of RadioCom Corporation**

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

Cypress acquired RadioCom for a total consideration of $10.2 million in stock. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on appraisals prepared by management using valuation methods that are widely recognized and commonly used in the valuation of technology assets. The asset values estimates are as follows:

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

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



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

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

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

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

**Note 5 Merger with Alation Systems, Incorporated**

On May 24, 2000, Cypress completed a merger with Alation Systems, Inc. ( Alation ), which was accounted for as a pooling of interests. These condensed consolidated financial statements and the notes to the condensed consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and Alation were different, and Alation has changed its fiscal periods to coincide with that of Cypress. Cypress s consolidated balance sheets as of July 2, 2000 and January

2, 2000 have been combined with Alation s consolidated balance sheets as of July 2, 2000 and December 31, 1999 respectively. For the purpose of the condensed consolidated statements of operations for the periods ended July 2, 2000 and July 4, 1999, Cypress s statements of operations have been combined with Alation s statements of operations for the three month and six month periods ended July 2, 2000 and June 30, 1999 respectively.

The results of operations previously reported by the separate companies prior to the merger and included in the results of operations for the three month period ended April 2, 2000, the six month period ended July 4, 1999 and the nine months ended October 3, 1999 are presented below.

Three months ended April 2, 2000:

| | Cypress | Alation | Total |
|---|---|---|---|
| | | (In thousands) | |
| Total revenue | $264,241 | $ | $264,241 |
| Net income | $ 53,120 | $(1,080) | $ 52,040 |

Six months ended July 4, 1999:

| | Cypress | Alation | Total |
|---|---|---|---|
| | | (In thousands) | |
| Total revenue | $329,920 | $ 198 | $330,118 |
| Net income | $ 18,546 | $(1,278) | $ 17,268 |

Nine months ended October 3, 1999:

| | Cypress | Alation | Total |
|---|---|---|---|
| | | (In thousands) | |
| Total revenue | $524,895 | $ 239 | $525,134 |
| Net income | $ 44,865 | $(2,350) | $ 42,515 |



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

**Note 6 Merger with Galvantech Incorporated**

On March 2, 2000, Cypress completed a merger with Galvantech, Inc. and its subsidiaries ( Galvantech ), which was accounted for as a pooling of interests. These condensed consolidated financial statements and the notes to the condensed consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and Galvantech were different, and Galvantech has changed its fiscal periods to coincide with that of Cypress. Cypress s consolidated balance sheets as of April 2, 2000 and January 2, 2000 have been combined with Galvantech s consolidated balance sheets as of April 2, 2000 and December 31, 1999 respectively. For the purpose of the condensed consolidated statements of operations for the periods ended April 2, 2000 and April 4, 1999, Cypress s statements of operations have been combined with Galvantech s statements of operations for the three month periods ended April 2, 2000 and March 31, 1999, respectively. As a result of combining Cypress s and Galvantech s financial statements for the fiscal years ended January 2, 2000 and January 3, 1999, the results of operations of Galvantech for the quarter ended March 31, 1999 were included in the supplementary consolidated statements of operations of both 1998 and 1999. Therefore, the balance sheet and cash and cash equivalents for the quarter ended December 31, 1998 and March 31, 1999 are the same.

The results of operations previously reported by the separate companies prior to the merger and included in the results of operations for the six month period ended July 4, 1999 and the nine months ended October 3, 1999 are presented below.

Six months ended July 4, 1999:

| | Cypress | Galvantech | Total |
|---|---|---|---|
| | | (In thousands) | |
| Total revenue | $313,114 | $16,806 | $329,920 |
| Net income | $ 17,164 | $ 1,382 | $ 18,546 |

Nine months ended October 3, 1999:

| | Cypress | Galvantech | Total |
|---|---|---|---|
| | | (In thousands) | |
| Total revenue | $497,611 | $27,284 | $524,895 |
| Net income | $ 43,581 | $ 1,284 | $ 44,865 |

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

**Note 7 Sale of Fast CMOS Technology Business**

On February 25, 2000, Cypress sold its Fast CMOS Technology ( FCT ) business including inventories, product software, all technical data, and a license for the related intellectual property. Total proceeds from the sale were $7.5 million and Cypress recorded a gain of $5.0 million from the sale. In conjunction with this sale, we entered into a supply agreement for the related existing inventories and future requirements, based on historical run rates. Existing inventories of $1.2 million were sold under the agreement in Q1 2000. We have continued to supply product through Q2 and Q3 2000, and expect to complete our obligations under the supply agreement during the fourth quarter of our fiscal year 2000. Revenues from FCT products were approximately 1% of our 1999 revenues.

**Note 8 Acquisition from Altera**

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

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**Note 9 Acquisition of Arcus Technology Companies**

On June 30, 1999, Cypress acquired all of the outstanding capital stock of Arcus Technology (USA), Inc. and the assets of Arcus Technology (India) Limited (referred to as Arcus on a combined basis). Arcus specializes in new data communications arenas including dense wave multiplexing (which allows multiple signals to be transmitted over a single fiber optic cable) and IP over SONET (the technology needed to code and decode internet traffic to send it over the telephone system). The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress s condensed consolidated balance sheet as of June 30, 1999, the effective date of the purchase. The results of operations of Arcus from June 30, 1999 through Cypress s quarter ended July 4, 1999 were not significant and were therefore excluded from that quarter s reported results. There are no significant differences between the accounting policies of Cypress and Arcus.

Cypress acquired Arcus for a total consideration of $17.7 million, including cash of $11.5 million and stock of $6.2 million. Through October 1, 2000, Cypress paid $10.5 million in cash and issued $6.2 million in stock. Cypress incurred a one-time charge of $2.0 million in the quarter ended July 2, 2000 due to an acceleration of contractual obligations. The remaining $1.0 million in cash will be paid as certain performance milestones are reached. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed based on independent appraisals and management estimates as follows:

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

**Note 10 Acquisition of Anchor Chips, Inc.**

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

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

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



**Note 11 Merger with IC WORKS Incorporated**

On April 1, 1999, Cypress completed a merger with IC WORKS Incorporated ( ICW ), which was accounted for as a pooling of interests. The condensed consolidated financial statements and the notes to the condensed consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and ICW were different. ICW has changed its fiscal year-end to coincide with that of Cypress. Cypress s consolidated statements of operations for the period ended April 4, 1999 have been combined with ICW s consolidated statements of operations for the corresponding three month period ended April 3, 1999.

During the quarter ended April 4, 1999, Cypress recorded merger-related transaction costs of $3.7 million related to the acquisition of ICW. These charges, which consist primarily of investment banking and other professional fees, have been included under acquisition and merger costs in the condensed consolidated statements of operations.

**Note 12 Cash and Investments (Restated)**

| | October 1, 2000 | January 2, 2000 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 531,302 | $159,088 |
| Short-term investments | 299,943 | 121,859 |
| Long-term investments | 252,737 | 111,324 |
| Restricted investments | 61,031 | 61,198 |
| Total | $1,145,013 | $453,469 |

**Note 13 Inventories**

| | October 1, 2000 | January 2, 2000 |
|---|---|---|
| | (In thousands) | |
| Raw materials | $ 9,634 | $13,360 |
| Work-in-process | 52,363 | 49,328 |
| Finished goods | 36,160 | 36,098 |
| Total | $98,157 | $98,786 |

**Note 14 Earnings Per Share (Restated)**

Statement of Accounting Standards No. 128 ( SFAS 128 ) requires a reconciliation of the numerators and denominators of the basic and diluted per share computations. Basic earnings per share ( EPS ) is computed by dividing net income available to stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS is computed using the weighted average number of common and all potentially dilutive common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and the if-converted method is used for determining the number of shares assumed issued from the conversion of the convertible subordinated notes. Following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the periods presented below.

Three months ended October 1, 2000 and October 3, 1999:

| | October 1, 2000 | | | October 3, 1999 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | Per-Share Amount | Income | Shares | Per-Share Amount |
| | (In thousands, except per share amounts) | | | | | |
| Basic EPS: | | | | | | |
| Net income | $62,049 | 121,139 | $0.51 | $25,247 | 110,982 | $0.23 |
| Effects of dilutive securities: | | | | | | |
| 6% Convertible Notes | 1,464 | 6,772 | | | | |
| 4% Convertible Notes | 1,747 | 6,119 | | | | |
| 3.75% Convertible Notes | 1,589 | 4,597 | | | | |
| 7.00% Convertible Notes | | | | | 48 | |
| Warrants | | 8 | | | | |

| | October 1, 2000 | | | October 3, 1999 | | |
|---|---|---|---|---|---|---|
| Stock options | | 9,839 | | | 9,902 | |
| Diluted EPS: | | | | | | |
| Net income | $66,849 | 148,474 | $0.45 | $25,247 | 120,932 | $0.21 |

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Nine months ended October 1, 2000 and October 3, 1999:

| | October 2, 2000 | | | October 3, 1999 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | Per-Share Amount | Income | Shares | Per-Share Amount |
| | (In thousands, except per share amounts) | | | | | |
| Basic EPS: | | | | | | |
| Net income | $179,718 | 118,389 | $1.52 | $42,515 | 106,392 | $0.40 |
| Effects of dilutive securities: | | | | | | |
| 6% Convertible Notes | 4,800 | 6,772 | | | | |
| 4% Convertible Notes | 5,122 | 5,626 | | | | |
| 3.75% Convertible Notes | 1,717 | 1,650 | | | | |
| 7.00% Convertible Notes | 5 | 21 | | | 48 | |
| Warrants | | 3 | | | | |
| Stock options | | 10,651 | | | 6,349 | |
| Diluted EPS: | | | | | | |
| Net income | $191,362 | 143,112 | $1.34 | $42,515 | 112,789 | $0.38 |

At October 1, 2000 and October 3, 1999, stock options outstanding were 23,590,000 and 23,489,000, respectively. Of the options outstanding at October 1, 2000 and October 3, 1999, 1,001,000 and 19,000 shares, on a weighted average basis, were excluded from the computation of diluted EPS because their exercise prices were greater than the average market price of common shares during the respective quarters. Convertible debentures outstanding at October 3, 1999 which were convertible to 6,772,000 shares of common stock were also excluded from diluted EPS in that period as their effect was anti-dilutive.

**Note 15 Restructuring**

***1998 Restructuring***

In March 1998, Cypress implemented an overall cost reduction plan and recorded a $57.1 million restructuring charge related to the impairment of assets ($46.4 million), reduction in work force ($4.8 million), and other transaction costs ($5.9 million). The restructuring entailed:

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

The discontinuance of the 0.6-micron 256K Static Random Access Memory ( SRAM ) production in Fab 2 located in Texas.

The conversion of an existing research and development fab located in San Jose ( Fab 1 ) to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.

The transfer of Cypress s test operations from its subcontractor, Alphatec, in Thailand to Cypress s production facility in the Philippines.

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

During Q2 1998, in conjunction with the closure of Fab 3, Cypress established a reserve for $1.4 million to cover severance costs associated with the reduction of work force at that location. This was based on the anticipated level of payments that would be made to personnel included in the work force reduction. As a part of a review of inventory, it was noted that Cypress required an additional reserve of $0.5 million to cover inventory that was written off. This related to a change in estimate regarding inventory that had been previously reserved.

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The following tables set forth charges taken against the restructuring reserve during the nine-months ended October 1, 2000 and Cypress s 1998 restructuring expense and charges taken against the reserve from the date the restructuring commenced through October 1, 2000, respectively.

| | **Balance January 2, 2000** | **Utilized** | **Credits** | **Balance October 1, 2000** |
|---|---|---|---|---|
| | | **(In thousands)** | | |
| Other fixed asset related charges(1) | $ 1,807 | $ (207) | $ | $1,600 |

| | **1998 Restructuring Reserve** | **Utilized** | **Credits** | **Balance October 1, 2000** |
|---|---|---|---|---|
| | | **(In thousands)** | | |
| Write-down of inventory (1) | $ 3,250 | $(3,250) | $ | $ |
| Severance and other employee related charges(1) (2) | 5,334 | (2,234) | (3,100) | $ |
| Other fixed asset related charges(1) | 3,030 | (910) | (520) | 1,600 |
| Provision for phase-down and consolidation of manufacturing facilities(1) | 976 | (637) | (339) | |
| Total | $12,590 | $(7,031) | $(3,959) | $1,600 |

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

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

During the quarter ended April 4, 1999, Cypress reversed $3.7 million of previously provided restructuring costs, $2.2 million of severance and other employee related charges and $0.3 million for the provision for phase-down and consolidation of manufacturing facilities were reversed in conjunction with the completion of the Alphatec restructuring activities. $0.5 million was reversed for other fixed asset related charges based on the determination that a portion of the fixed asset removal costs accrual would not be required. These reversals related to Cypress s 1998 restructuring activities. Cypress also reversed a $0.7 million reserve for fixed asset installation costs related to its 1996 restructuring activities which was no longer required. During Q2 1999, Cypress reversed an additional $0.1 million of previously provided restructuring costs related to Fab 3.

Restructuring activities associated with Fabs 2 and 3 were completed in May and July 1998, respectively, consistent with Cypress s restructuring schedule except for the disposal of equipment. $0.9 million of severance and other employee related charges were reversed at that time. Fab 1 restructuring was not completed in January 1999 as originally planned. Cypress is in the process of converting its R&D wafer facility in San Jose to eight-inch capability and expects to have the conversion completed by December 2000. The Alphatec consolidation and transfer activity was completed in January 1999, one month later than originally planned.

***1997 Restructuring Costs***

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

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The following tables set forth charges taken against the reserve during the first six months of 2000 and Cypress s 1997 restructuring expense and charges taken against the reserve from the date the restructuring commenced through the completion of restructuring activities in Q2 2000 respectively. The actual liquidation of substantially all of the impaired assets was completed in November 1998. The balance of the reserve remaining was reversed and taken as a restructuring credit in Q2 2000 when it was determined that no outstanding commitments existed.

| | **Balance January 2, 2000** | **Utilized** | **Credits** | **Ending Balance** |
|---|---|---|---|---|
| | | **(In thousands)** | | |
| Operating lease costs(1) | $506 | $(21) | $(485) | $ |

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

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

**Note 16 Equity and Debt Transactions**

On September 7, 2000, Cypress called for the redemption of all its 6% Convertible Subordinated Notes ( Notes ) due in 2002. The aggregate amount of principal outstanding at the time of the call was approximately $160 million. Holders of the Notes could convert their Notes into shares of Cypress s common stock at a conversion rate of approximately 42.33 shares of stock per $1,000 principal amount of the Notes. Any notes not converted on or before 5:00 p.m., Eastern Time, on October 2, 2000 would be automatically redeemed on October 3, 2000. Holders of the redeemed Notes received a total redemption price of $1,024.33 per $1,000 principal amount of the Notes. The redemption price consisted of: (a) the issue price of $1,000, plus (b) $24.00 of premium, plus (c) accrued interest of $0.33, per $1,000 principal amount of the Notes. Substantially all of the Notes were converted prior to the redemption deadline. Unconverted notes with a face value of $14,000 were redeemed on October 3, 2000 per the original terms of the Notes.

During the first quarter of fiscal year 2000, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, which was effective February 8, 2000, as amended by a post-effective amendment thereto effective March 7, 2000, Cypress can, through January 2002, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of $400.0 million. The shelf registration statement allows Cypress flexibility to raise funds from the offering of debt securities, common stock, preferred stock or a combination thereof, subject to market conditions and Cypress s capital needs. Pursuant to this shelf registration statement, on June 26, 2000, Cypress completed a $287.5 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 3.75% and an initial conversion premium of 27%. The notes are convertible into approximately 4.6 million shares of common stock and are callable by Cypress no earlier than July 5, 2003. Net proceeds were $279.6 million, after issuance costs of $7.9 million.

During the fourth quarter of 1998, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration statement, which was declared effective in the first quarter of 1999, Cypress could, through March 2001, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of $300.0 million. Pursuant to the shelf registration statement, on March 29, 1999, Cypress sold 7.2 million shares of common stock. Cypress received approximately $33.8 million in proceeds, net of issuance costs, from the sale of these shares. Cypress filed an additional registration statement on Form S-3, pursuant to Rule 462(b) under the Securities Act, to register securities in excess of the $300.0 million available under the shelf registration statement. On January 25, 2000, Cypress completed a $283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.0% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were $275.2 million, after issuance costs of $7.8 million.



**Note 17 Legal Matters**

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

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

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

On October 2, 2000, U.S. Philips Corporation sued Cypress and five other companies in the United State District Court for the Southern District of New York for infringement of U.S. Patent No. 4,689,740, purportedly covering aspects of inter-integrated circuit ( I2C ) technology. We have reviewed and investigated the allegations in the complaint and believe that the suit is without merit. We will vigorously defend ourselves in this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on Cypress s consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, we may be required to pay damages and other expenses that we do not expect to have a material adverse effect on our financial position and results of operations.

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

During 1998, EMI Group of North America, Inc. ( EMI ) filed suit against Cypress in the Federal Court in Delaware, claiming that Cypress infringed on four patents owned by EMI. Cypress and EMI entered into a license agreement in February 1999, for one of the four patents in the lawsuit. EMI withdrew two of the four patents from the lawsuit, including the patent related to the licensing agreement. The case involving the two remaining patents went to trial in October 1999. The jury ruled in favor of Cypress claiming that none of the patents were infringed by Cypress and that each asserted claim was invalid due to prior art and physical impossibility (i.e. the patents require a step that is physically impossible to perform). On July 7, 2000, the court ruled on post-trial motions filed by EMI, upholding the jury s findings that the EMI patents are invalid and that Cypress does not infringe the EMI patents. EMI has appealed these rulings, and Cypress intends to defend itself vigorously on appeal. However, should the outcome of this action be unfavorable, Cypress s business, financial condition and results of operations could be materially and adversely affected.

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



In June 1997, Cypress commenced a declaratory judgment action in the United States District Court for the District of Nevada against the Li Second Family Trust ( the Trust ). In this action, Cypress asked for declaratory relief to the effect that an U.S. patent relating to a part of the process for manufacturing semiconductors is unenforceable, invalid and not infringed by Cypress. The Trust has counter-claimed for patent infringement on the same patent, alleging such patent covers oxide-isolated integrated circuits. In May 1999, in a related case, the United States District Court for the Eastern District of Virginia ruled that the patent is unenforceable due to inequitable conduct by Dr. Li and his attorneys in obtaining the patent. On November 8, 2000, the Court of Appeals for the Federal Circuit upheld the ruling of the Eastern District of Virginia. We expect this to the final outcome of this matter, as Cypress s defenses to the counter-claim were meritorious, and that no further defense activities are necessary.

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

**Note 18 Comprehensive Income**

In fiscal 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income . Comprehensive income refers to the change in the equity of a company during a period from transactions except those resulting from investments by owners and distributions to owners. Cypress adopted this statement as of the first quarter of 1998 and has determined that it does not have any material components of other comprehensive income.

**Note 19 Segment Reporting (Restated)**

Cypress has two reportable segments, Memory Products and Non-memory Products. The Memory Products segment includes Static Random Access Memories ( SRAMs ). The Non-memory Products segment includes programmable logic products, data communication devices, interface products, computer products, non-volatile memory products, microelectromechanical systems ( MEMS ) technology, and wafers manufactured by the foundry. Cypress evaluates the performance of its two segments based on profit or loss from operations before income taxes, excluding nonrecurring gains and losses.

While both Memory and Non-Memory segments primarily serve the communications marketplace, the segments differ in functionality. Memory Products are delineated by their ability to store and retrieve information. Non-Memory product functionality relates primarily to logic, timing, data transfer and routing of information. The desired functionality will often determine the price, margin and point of manufacture of a particular product in a market segment.



The tables below set forth information about the reportable segments for three- and nine-month periods ended October 1, 2000 and October 3, 1999. Cypress does not allocate income taxes or non-recurring items to segments. In addition, segments do not have significant non-cash items other than depreciation and amortization in reported profit or loss.

**Business Segment Net Revenues**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2000 | October 3, 1999 | October 1, 2000 | October 3, 1999 |
| | (In thousands) | | | |
| Memory | $173,375 | $ 78,051 | $437,372 | $215,727 |
| Non-memory | 179,312 | 116,965 | 480,390 | 309,407 |
| Total consolidated revenues | $352,687 | $195,016 | $917,762 | $525,134 |

**Business Segment Profit (Loss)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2000 | October 3, 1999 | October 1, 2000 | October 3, 1999 |
| | (In thousands) | | | |
| Memory | $ 56,857 | $ 55 | $ 112,226 | $(19,561) |
| Non-memory | 59,743 | 27,706 | 152,206 | 70,429 |
| Acquisition and merger costs | (35,557) | (2,005) | (47,358) | (11,818) |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Restructuring credits | | | 485 | 3,811 |
| Interest income and other | 16,987 | 4,218 | 43,704 | 11,367 |
| Interest expense | (7,953) | (2,468) | (18,020) | (7,258) |
| Income before provision for income taxes | $ 90,077 | $ 27,506 | $ 243,243 | $ 46,970 |

On October 16, 2000, Cypress announced the formation of new profit centers aligned with markets rather than product lines. The new organizations were formed to enhance Cypress s focus on the communication businesses. The Network market consists of products used in wide area networks ( WAN ) and storage networks ( SN ). The Wireless market includes products used for wireless infrastructure ( WI ) and wireless terminals ( WT ). The Computation and Other market includes products used in computers, peripherals, and other applications. Cypress s current product lines continue to operate as they have in the past. The market focus is expected to provide systems knowledge, cross-product-line product portfolio definition, early engagement with strategic accounts and added management of R&D spending.

The tables below set forth revenue information about the markets for the three- and nine-month periods ended October 1, 2000.

**Market Segment Net Revenues**

| | Three Months Ended October 1, 2000 | Nine Months Ended October 1, 2000 |
|---|---|---|
| | (In thousands) | |
| Network | $142,604 | $375,569 |
| Wireless | 135,607 | 334,083 |
| Computation & Other | 74,476 | 208,110 |
| Total consolidated revenues | $352,687 | $917,762 |

**Note 20 Recent Accounting Pronouncements**

In April 2000, the Financial Accounting Standards Board issued FASB interpretation of No. 44 ( FIN 44 ), Accounting for Certain Transactions Involving Stock Compensation , an interpretation of APB Opinion No. 25. This interpretation is effective July 1, 2000, but certain conclusions in the interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000.



In December 1999, the staff of the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 101 ( SAB 101 ) Revenue Recognition in Financial Statements, as amended by SAB 101A and 101B, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Adoption of SAB 101 is required by the fourth quarter of fiscal 2000. The Company is currently assessing the impact of this new Staff Accounting Bulletin on its consolidated financial position, liquidity and results of operations.

In June 1998, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ). SFAS 133 establishes a new model for accounting for derivatives and hedging activities and supercedes and amends a number of existing accounting standards. SFAS 133 requires that all derivatives be recognized in the balance sheet at their fair market value. In addition, corresponding derivative gains and losses should be either reported in the statement of operations and stockholders equity, depending on the type of hedging relationship that exists with respect to such derivatives. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, an amendment to SFAS 133, which deferred the effective date of adoption of SFAS 133 for one year. In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, an amendment to SFAS 133, which addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133. Adopting the provisions of SFAS 133, which will be effective in fiscal year 2001, are not expected to have a material effect on Cypress s consolidated financial statements.

**Note 21 Subsequent Events (Restated)**

**Redemption of Convertible Subordinated Notes**

On September 7, 2000, Cypress called for the redemption of all its 6% Convertible Subordinated Notes ( Notes ) due in 2002. In accordance with the terms of the Notes, holders of the Notes could convert their Notes into shares of Cypress s common stock at a conversion rate of approximately 42.33 shares of stock per $1,000 principal amount of the Notes. Any notes not converted on or before 5:00 p.m., Eastern Time, on October 2, 2000 would be automatically redeemed on October 3, 2000. Holders of the redeemed Notes received a total redemption price of $1,024.33 per $1,000 principal amount of the Notes. The redemption price consisted of: (a) the issue price of $1,000, plus (b) $24.00 of premium, plus (c) accrued interest of $0.33, per $1,000 principal amount of the Notes. Substantially all of the Notes were converted prior to the redemption deadline.

**Authorization of Share Repurchase**

On November 30, 2000, the Board of Directors of Cypress authorized the repurchase of up to 5 million shares of Cypress s outstanding common stock which is listed on the New York Stock Exchange under the symbol CY. On December 21, 2000, the Board of Directors of Cypress authorized the repurchase of an additional 5 million shares of Cypress s outstanding common stock, bringing the total shares authorized in the repurchase program to 10 million. As of December 29, 2000, 6.3 million shares were repurchased at an average cost of $22.90 per share.



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**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the Three and Nine Months Ended October 1, 2000 (Restated)**

All references are to Cypress s fiscal quarters ended October 1, 2000 ( Q3 2000 ), October 3, 1999 ( Q3 1999 ), July 2, 2000 ( Q2 2000 ), July 4, 1999 ( Q2 1999 ), April 2, 2000 ( Q1 2000 ), and April 4, 1999 ( Q1 1999 ), unless otherwise indicated. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, but not limited to, statements as to future operating results and business plans of Cypress. We use words such as anticipates , believes , expects , future , intends and similar expressions to identify forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of the factors set forth in Factors Affecting Future Results and elsewhere in this report.

The financial statements as of October 1, 2000 and January 2, 2000 and for the three and nine months ended October 1, 2000 and October 3, 1999 included in this Amendment to the Quarterly Report on Form 10-Q have been restated to reflect a change in accounting treatment from the pooling of interest method to the purchase method related to the acquisition of Silicon Light Machines. This change in accounting method was required due to Cypress s Board of Directors authorizing the repurchase of up to five million shares of Cypress common stock on November 30, 2000. The tables in Note 2 of the financial statements reflect the previously reported and restated amounts for selected balance sheet and income statement captions as a result of this accounting change.

**Results of Operations**

***Revenues***

Revenues for the three- and nine-month periods ended October 1, 2000 were $352.7 million and $917.8 million, respectively. Revenues for Q3 2000 increased $157.7 million or 80.9% compared to revenues of $195.0 million for Q3 1999. Revenues of $917.8 million for the nine-month period ended October 1, 2000 were $392.6 million or 74.8% higher than the $525.1 million recognized in the comparable period of the prior fiscal year. Cypress derives its revenues from the sale of Memory Products and Non-memory Products. Below is a summary of revenues derived from the sale of Memory Products and Non-memory Products.

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **October 1, 2000** | **October 3, 1999** | **October 1, 2000** | **October 3, 1999** |
| | | **(In thousands)** | | |
| Memory | $173,375 | $ 78,051 | $437,372 | $215,727 |
| Non-memory | 179,312 | 116,965 | 480,390 | 309,407 |
| Total consolidated revenues | $352,687 | $195,016 | $917,762 | $525,134 |

Memory Products revenues result from the sales of Static Random Access Memories ( SRAMs ). Revenues from the sale of Memory Products for Q3 2000 increased $95.3 million or 122.1% over revenues from the sale of these products for Q3 1999. When comparing revenues for the nine months ended October 3, 2000 to the comparable period of the prior fiscal year, Memory Product revenues increased $221.6 million or 102.7%. The increases in Memory Product revenues as compared to the three- and nine-month periods ended October 3, 1999 resulted from both higher average selling prices ( ASPs ) and an increase in unit sales. ASPs increased 64% and unit sales increased 35% comparing Q3 2000 to Q3 1999. ASPs increased 36% and unit sales increased 49% comparing the nine-month periods ended October 3, 1999 and October 1, 2000. Unit sales of SRAMs continue to increase due to new product introductions in the synchronous and low power SRAM product families. High average ASPs are a result of strong demand for SRAMs and the continuing increase in the average density (Mbits/unit) of SRAM products sold.

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Non-memory Products include computer products, interface products, data communication devices, non-volatile memory devices, programmable products, and microelectromechanical systems ( MEMS ) technology. Non-memory Products also include foundry revenues. Foundry revenues represent the sale of wafers to customers. Revenues from the sale of Non-memory Products increased $62.3 million or 53.3% comparing Q3 2000 to Q3 1999. The growth related primarily to increases in sales of data communication devices of $36.0 million, interface products of $14.4 million, programmable products of $6.5 million, timing technology products of $6.4 million, and MEMS products of $0.5 million. These increases were partially offset by decreases in foundry revenue of $0.8 million and non-volatile memory of $0.7 million. The primary factors contributing to the increase in data communication devices were higher unit sales and higher ASPs, particularly in the specialty memory and channel line of products. For the nine-month period October 1, 2000 as compared to the same period in the previous fiscal year, revenues from the sale of Non-memory Products increased $171.0 million or 55.3%. The increase from the nine-month period ended October 3, 1999 to the comparable period in fiscal 2000 related primarily to increases in sales of data communication devices of $91.5 million, interface products of $45.8 million, programmable products of $21.4 million, timing technology products of $18.6 million, and MEMS technology of $0.5 million. These increases were partially offset by decreases in foundry revenue of $3.3 million and non-volatile memory of $3.5 million. The primary factors contributing to the increase in data communication devices were higher unit sales and higher ASPs, particularly in the specialty memory and channel line of products. The increase in revenues for interface products can be attributed to higher unit sales due to the growing market conversion to Universal Serial Bus ( USB ) peripheral products. The net increase in programmable logic devices was a result of higher unit sales and higher ASPs. The revenue growth in timing technology products between the first nine-months of fiscal 1999 and 2000 was primarily a result of the increased unit sales due to greater acceptance of Cypress s clock products.

The semiconductor industry is highly cyclical and subject to significant downturns as a result of a variety of risk factors, including, but not limited to, diminished product demand, production over-capacity and accelerated erosion of ASPs. Revenues have continued to be impacted by fluctuations in ASPs. Should ASPs erode at a rate greater than anticipated, gross margins could be seriously harmed. Cypress continues to introduce new products and new methods of reducing manufacturing costs in order to mitigate the effects of changes in ASPs on its gross margins.

***Cost of Revenues***

Cost as a percent of revenue decreased to 41.9% for Q3 2000 as compared to 54.1% in Q3 1999. For the nine-month periods ended October 1, 2000 and October 3, 1999, cost as a percent of revenue was 45.1% and 56.1%, respectively. This improvement was brought about by a series of factors including an increase in value-added products which command higher prices and result in higher margin, strong unit demand, a stable pricing environment and continued cost reduction activities. Since 1998, Cypress has changed its product focus more towards solutions in the data-communications market. This change has resulted in new product offerings having a high value added component. This is in contrast to our prior focus of building larger and faster commodity memory devices. The end result of Cypress new focus is that selling prices and the resulting margins are generally higher than in prior periods. The communications focus has also resulted in increased unit demand from our customers. Unit demand has further increased due to a strong semiconductor market characterized by tightness in supply even in older commodity products. This has enabled Cypress to enjoy improved factory utilization and absorption over 1999 and into 2000. The tight supply and the offering of more products that are not purely commodity driven has resulted in stable pricing in a business that usually endures price declines over a product-life cycle. Cypress has continued its significant investment in process technology, which has reduced the line widths, and resulting die size. Extensive use of Cypress s .25 micron technology has led to significant cost reductions particularly in the memory segment. While Cypress is optimistic about its abilities to continue the trend of improving margins, there are significant risk factors, described later in this report that could adversely impinge upon profit margins.

In March 1998, Cypress announced restructuring activities for its domestic wafer fabrication facilities and offshore back-end manufacturing operations. Activities completed to date have increased Cypress s manufacturing efficiencies and decreased cost of revenues. Cost of revenues as a percent of revenues may be impacted by a variety of factors including but not limited to the following:

- Product mix;
- Factory capacity and utilization;
- Manufacturing yields;
- Availability of certain raw materials;
- Terms negotiated with third-party contractors; and
- Foreign currency fluctuations.

These and other factors could cause a significant increase or decrease on our gross margin in future periods.

***Research & Development***

Research and development ( R&D ) expenditures for Q3 2000 were $48.0 million or 13.6% of revenues, compared to $33.9 million or 17.4% of revenues for Q3 1999. R&D costs incurred in the nine months ended October 1, 2000 were $129.1 million or 14.1% of revenues compared to $100.1 million or 19.1% of revenues for the comparable period in fiscal 1999. Even though absolute spending in R&D was $14.1 million higher comparing Q3 2000 to Q3 1999, R&D expenditures as a percentage of revenues declined as the increase in revenues far exceeded the increase in spending. The $14.1 million increase in R&D costs from Q3 1999 to Q3 2000 relates primarily to costs associated with new product development at Cypress s design centers and to the continued development of more advanced process technologies. These factors also contributed to the $29.0 million increase in R&D expenditures from the first nine months of fiscal 1999 to the first nine months of fiscal 2000.

Cypress expects spending for R&D will continue to increase as Cypress continues its efforts to accelerate the development of new products and migration to more advanced process technologies. Cypress is continuing to explore new markets and improve its design and process technologies in an effort to increase revenues and reduce costs. The foregoing statements regarding Cypress s R&D spending efforts are forward-looking.

***Selling, General and Administrative***

Selling, general and administrative ( SG&A ) expenses for Q3 2000 were $40.4 million or 11.4% of revenues, compared to $27.9 million or 14.3% of revenues for Q3 1999. SG&A costs incurred for the nine months ended October 1, 2000 were $110.5 million or 12.0% of revenues compared to $79.7 million or 15.2% of revenues for the same period in 1999. Even though absolute spending in SG&A was $12.5 million higher comparing Q3 2000 to Q3 1999 and $30.8 million higher comparing the nine months ended October 1, 2000 with the same period in 1999, SG&A expenditures as a percentage of revenues declined as the increase in revenues far exceeded the increase in spending. The increase in SG&A costs of $12.5 million from Q3 1999 to Q3 2000 and $30.8 million from the nine-month periods ended October 3, 1999 to October 1, 2000 relate primarily to higher commission expenses, salary and related benefit costs, and expenses for other professional services. The change in all other SG&A expenses from 1999 to 2000 was not significant.

With the exception of variable spending such as incentive bonuses and commissions, Cypress expects recurring SG&A spending to remain relatively constant. The foregoing statement regarding Cypress s SG&A spending efforts is forward-looking.

***Acquisition and Merger Costs***

During Q3 2000, Cypress recorded aggregate merger-related costs of $35.6 million. Of the merger-related costs incurred during Q3 2000, $33.3 million related to the merger with Silicon Light Machines, which was completed on August 30, 2000. SLM acquisition costs consisted of $30.4 million for in-process research and development and $2.9 million for the amortization of intangible assets. In addition, $2.3 million of the costs recorded in Q3 2000 related to the amortization of intangible assets recorded due to the previous acquisitions of Anchor Chips, Arcus, the MAX 5000 Programmable Logic Device ( PLD ) product line from Altera, and RadioCom. During Q3 1999, Cypress recorded aggregate merger-related costs of $2.0 million related primarily to the amortization of intangible assets recorded due to the acquisitions of Anchor Chips and Arcus in Q2 1999.

***1998 Restructuring Costs***

In March 1998, Cypress recorded a one-time, pre-tax restructuring charge of $57.1 million related to the impairment of assets ($46.4 million), reduction in work force ($4.8 million), and other transaction costs ($5.9 million). The restructuring entailed:

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

The discontinuance of the 0.6-micron 256K SRAM production in Fab 2 located in Texas.

The conversion of an existing research and development fab located in San Jose ( Fab 1 ) to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.

The transfer of Cypress s test operations from its subcontractor, Alphatec, in Thailand to Cypress s production facility in the Philippines.

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

During Q2 1998, in conjunction with the closure of Fab 3, Cypress established a reserve for $1.4 million to cover severance costs associated with the reduction of work force at that location. This was based on the anticipated level of payments that would be made to personnel included in the work force reduction. As a part of a review of inventory, it was noted that Cypress required an additional reserve of $0.5 million to cover inventory that was written off. This related to a change in estimate regarding inventory that had been previously reserved.

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

***Restructuring Credits***

During Q2 2000, Cypress reversed $0.5 million of previously provided restructuring costs related to the decision to close down the Cypress (ICW) wafer fab located in San Jose. Cypress determined in Q2 2000 that no outstanding commitments related to this restructuring existed. During Q1 1999, Cypress reversed $3.7 million of previously provided restructuring costs. $2.2 million of severance and other employee related charges and $0.3 million for the provision for phase-down and consolidation of manufacturing facilities were reversed in conjunction with the completion of the Alphatec restructuring activities. $0.5 million for other fixed asset related charges was reversed based on the determination that a portion of the fixed asset removal costs accrual would not be required. These reversals related to Cypress s 1998 restructuring activities. Cypress also reversed a $0.7 million reserve for fixed asset installation costs related to its 1996 restructuring activities which was no longer required. During Q2 1999, Cypress reversed an additional $0.1 million of previously provided restructuring costs related to Fab 3.

***Interest Expense***

Interest expense was $8.0 million and $18.0 million during the three- and nine-month periods ended October 1, 2000 respectively, compared to $2.5 million and $7.3 million for the three- and the nine-month periods ended October 3, 1999. Interest expense is primarily associated with the 6.0% Convertible Subordinated Notes, issued in September 1997 and due in 2002, the 4.0% Convertible Subordinated Notes, issued in January 2000 and due in 2005, and the 3.75% Convertible Subordinated Notes, issued in June 2000 and due in 2005. The increase of $5.5 million from Q3 1999 relates primarily to the increase in interest due to the January 2000 issuance of the 4.0% Convertible Subordinated Notes and the June 2000 issuance of the 3.75% Convertible Subordinated Notes. The $10.7 million increase from the nine months ended October 3, 1999 relates primarily to the increase in interest due to the January 2000 issuance of the 4.0% Convertible Subordinated Notes and the June 2000 issuance of the 3.75% Convertible Subordinated Notes. Interest expense is expected to decrease in the next quarter, due to the conversion of substantially all of the outstanding 6.0% Convertible Subordinated Notes on October 2, 2000. Unconverted notes with a face value of $14,000 were redeemed on October 3, 2000.

***Interest Income and Other***

Net interest income and other was $17.0 million and $43.7 million for the three- and nine-month periods ended October 1, 2000, respectively, compared to $4.2 million and $11.4 million for the three- and nine-month periods ended October 3, 1999. Net interest income and other includes interest income, amortization of bond issuance costs, foreign exchange gains and losses and other non-recurring items. The $12.8 million increase from Q3 1999 to Q3 2000 relates primarily to higher interest income due to increased cash balances, primarily resulting from new convertible note issuances in January and June 2000, and higher investment yields. The $32.3 million increase from the first nine months of fiscal 1999 to the first nine months of fiscal 2000 relates primarily to higher interest income due to increased cash balances, primarily resulting from new convertible note issuances in January and June 2000, and higher investment yields. The nine-month period ended October 1, 2000 also includes a $5.0 million non-recurring gain related to the sale of the FCT business.

***Taxes***

Cypress s effective tax rates for Q3 2000 and Q3 1999 were 31.1% and 8.2%, respectively, resulting in income tax expense of $28.0 million and $2.3 million, respectively. Cypress s effective tax rates for the nine month periods ended October 1, 2000 and October 3, 1999 were 26.1% and 9.5%, respectively, resulting in income tax expense of $63.5 million and $4.5 million, respectively. The difference in the effective tax rates for the three- and nine-month periods ended October 3, 1999 to October 1, 2000 can be attributed to non-deductible in-process research and development charges and merger costs offset by utilization of loss carryovers, earnings of foreign subsidiaries taxed at lower rates and tax credits. Cypress s effective tax rates for the three- and nine-month periods ending October 1, 2000 and October 3, 1999, excluding non-deductible in-process research and development charges and merger costs, were 22.0 % and 5.0 %, respectively. Cypress s effective rate varies from the U.S. statutory rate primarily due to utilization of loss carryovers, earnings of foreign subsidiaries taxed at lower rates and tax credits.

***Net Income and Net Income Per Share***

Net income for Q3 2000 was $62.0 million or $0.45 per share on a diluted basis, compared to a net income for Q3 1999 of $25.2 million or $0.21 per share, on a diluted basis. Net income for the nine months ended October 1, 2000 was $179.7 million or $1.34 per share on a diluted basis, compared to net income of $42.5 million or $0.38 per share on a diluted basis for the nine months ended October 3, 1999.

***Earnings Before Goodwill***

Cypress reported basic earnings before goodwill ( EBG ) and diluted EBG. EBG refers to earnings excluding goodwill and acquisition costs, restructuring related charges and credits, and non-recurring items. Goodwill and acquisition costs consist of the amortization of intangibles, non-cash deferred compensation expenses, in-process research and development costs, and transaction costs, net of tax. These types of charges and credits are excluded from the computation of EBG and are collectively referred to as goodwill by Cypress. We have presented EBG as a measure of our operating results, but EBG is not intended to replace operating income or net income as an indicator of operating performance, or to replace cash flow as a measure of liquidity, because EBG is not a recognized concept under generally accepted accounting principles. Also, our calculation of EBG may not be comparable to EBG as calculated by other companies. The table below reconciles basic and diluted net income per share to basic and diluted earnings before goodwill per share, respectively.

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

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **October 1, 2000** | **October 3, 1999** | **October 1, 2000** | **October 3, 1999** |
| Basic net income per share | $0.51 | $0.23 | $ 1.52 | $ 0.40 |
| Goodwill & Acquisition costs net of taxes per share | $0.31 | $0.02 | $ 0.43 | $ 0.11 |
| Non-recurring gain on sale of FCT per share | $ | $ | $(0.04) | $ |
| Restructuring credits net of taxes per share | $ | $ | $ | $(0.03) |
| Basic earnings before goodwill per share | $0.82 | $0.25 | $ 1.89 | $ 0.48 |

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

| **Three Months Ended** | **Nine Months Ended** |
|---|---|

| | October 1, 2000 | October 3, 1999 | October 1, 2000 | October 3, 1999 |
|---|---|---|---|---|
| Diluted net income per share | $0.45 | $0.21 | $ 1.34 | $ 0.38 |
| Goodwill & Acquisition costs net of taxes per share | $0.25 | $0.02 | $ 0.35 | $ 0.10 |
| Non-recurring gain on sale of FCT per share | $ | $ | $(0.03) | $ |
| Restructuring credits net of taxes per share | $ | $ | $ | $(0.03) |
| Diluted earnings before goodwill per share | $0.70 | $0.23 | $ 1.64 | $ 0.45 |

**Liquidity and Capital Resources**

Cypress s cash, cash equivalents and short-term investments totaled $831.2 million at October 1, 2000, a $550.3 million increase from the end of fiscal 1999.

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During the three- and nine-month periods ended October 1, 2000, Cypress purchased $98.9 million and $250.7 million in capital equipment, respectively, compared to $35.2 million and $76.8 million in the same periods in fiscal 1999. Cypress purchased equipment for its domestic wafer fabrication plants, its test and assembly facility in the Philippines and its design and technology groups. Equipment purchased for its fabs is expected to improve wafer manufacturing capacity and capabilities as Cypress implements new technologies, including its 0.16- and 0.25-micron processes. A majority of the equipment purchased was to increase the capacity and capability of Fab 4 located in Minnesota. Equipment purchased for the Philippines was used to increase manufacturing capacity and tool certain packaging capabilities. Purchases of capital equipment for the technology group are expected to enhance and accelerate research and development capabilities. Cypress continues its efforts to increase its manufacturing capabilities and capacity and to enhance its research and development capabilities. Capital expenditures for the remainder of 2000 are expected to be approximately $125.0 million.

On September 7, 2000, Cypress called for the redemption of all its 6% Convertible Subordinated Notes ( Notes ) due in 2002. The aggregate amount of principal outstanding at the time of the call was approximately $160 million. Holders of the Notes could convert their Notes into shares of Cypress s common stock at a conversion rate of approximately 42.33 shares of stock per $1,000 principal amount of the Notes. Any notes not converted on or before 5:00 p.m., Eastern Time, on October 2, 2000 would be automatically redeemed on October 3, 2000. Holders of the redeemed Notes received a total redemption price of $1,024.33 per $1,000 principal amount of the Notes. The redemption price consisted of: (a) the issue price of $1,000, plus (b) $24.00 of premium, plus (c) accrued interest of $0.33, per $1,000 principal amount of the Notes. Substantially all of the Notes were converted prior to the redemption deadline. Unconverted notes with a face value of $14,000 were redeemed on October 3, 2000 per the original terms of the Notes.

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

During the fourth quarter of 1998, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration statement, which was declared effective in the first quarter of 1999, Cypress could, through March 2001, sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of $300.0 million. Pursuant to the shelf registration statement, on March 29, 1999, Cypress sold 7.2 million shares of common stock. Cypress received approximately $33.8 million in proceeds, net of issuance costs, from the sale of these shares. Cypress filed an additional registration statement on Form S-3, pursuant to Rule 462(b) under the Securities Act, to register securities in excess of the $300.0 million available under the shelf registration statement. On January 25, 2000, Cypress completed a $283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.0% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were $275.2 million, after issuance costs of $7.8 million.

In March 1999, Cypress announced a program whereby all U.S. employees were offered loans to facilitate the exercise of vested stock options. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress or 3 years from the grant date of the loan. The loans bear interest and are secured by Cypress common shares. At October 1, 2000, loans receivable under this program totaled $2.1 million.



In fiscal years 1997 and 1998, the Board of Directors authorized the repurchase of up to 14.0 million shares of Cypress s common stock. Through January 3, 1999, 8.1 million shares had been repurchased under this entire program for $67.5 million. On February 25, 1999, the Board of Directors terminated the stock repurchase program. The unsold repurchased shares were and are expected to continue to be used for option exercises under Cypress s 1994 Stock Option Plan and stock purchases under the Employee Stock Purchase Plan. During 1998, Cypress reissued 1.8 million shares of common stock under such plans. During fiscal 1999, Cypress reissued a total of 8.3 million shares in relation to the stock offering described above and in conjunction with the 1994 Stock Option Plan and Employee Purchase Plan. Such shares had been repurchased under the 1997/1998 plan and repurchase programs prior to 1997. During fiscal 2000, the Board of Directors authorized the repurchase of up to 10.0 million shares of Cypress common stock. As of December 29, 2000, 6.3 million shares were repurchased. No additional treasury shares have been reissued during fiscal 2000.

Cypress believes that existing cash and equivalents as well as cash from operations will be sufficient to meet present and anticipated working capital requirements for at least the next twelve months. Cypress s need for further capacity and resulting capital expansion may result in the need to raise additional capital through debt or equity financing. Conversely, Cypress s operating results may be adversely impacted by various risk factors causing Cypress to raise additional monies. Although additional financing may be required, Cypress may not be able to obtain the capital or satisfactory terms.

**Factors Affecting Future Results**

***Risk Factors***

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

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

the intense competitive pricing pressure to which our products are subject, which can lead to rapid and unexpected declines in average selling prices;

the complexity of our manufacturing processes and the sensitivity of our production costs to declines in manufacturing yields, which make yield problems both possible and costly when they occur; and

the need for constant, rapid new product introductions which present an ongoing design and manufacturing challenge, which can be significantly impacted by even relatively minor errors, and which may result products never achieving expected market demand.

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

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

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



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**Our financial results could be seriously harmed if the markets in which we sell our products do not grow.** Our continued success depends in large part on the continued growth of various electronics industries that use our semiconductors, including the following industries:

data communications and telecommunications equipment;

computers and computer related peripherals;

automotive electronics;

industrial controls;

customer electronics equipment; and

military equipment.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

Making semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even very small impurities in our manufacturing materials, difficulties in the wafer fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be nonfunctional. We may experience problems in achieving an acceptable success rate in the manufacture of wafers, and the likelihood of facing such difficulties is higher in connection with the transition to new manufacturing methods. The interruption of wafer fabrication or the failure to achieve acceptable manufacturing yields at any of our facilities would seriously harm our business, financial condition and results of operations. We may also experience manufacturing problems in our assembly and test operations and in the introduction of new packaging materials.

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

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

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

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

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

Our success in developing new products and manufacturing technologies;

The quality and price of our products;

The diversity of our product lines;

The cost effectiveness of our design, development, manufacturing and marketing efforts;

The pace at which customers incorporate our products into their systems; and

The number and nature of our competitors and general economic conditions.



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

**We must build semiconductors based on our forecasts of demand, and if our forecasts are inaccurate, we may have large amounts of unsold products or we may not be able to fill all orders.** We order materials and build semiconductors based primarily on our internal forecasts, and secondarily on existing orders, which may be cancelled under many circumstances. Consequently, we depend on our forecasts to determine inventory levels for our products and the amount of manufacturing capacity that we need. Because our markets are volatile and subject to rapid technological and price changes, our forecasts may be wrong, and we may make too many or too few of certain products or have too much or too little manufacturing capacity. Also, our customers frequently place orders requesting product delivery almost immediately after the order is made, which makes forecasting customer demand all the more difficult. The above factors also make it difficult to forecast quarterly operating results. If we are unable to predict accurately the appropriate amount of product required to satisfy customer demand, our business, financial condition and results of operations could be seriously harmed.

**We must spend heavily on equipment to stay competitive, and will be adversely impacted if we are unable to secure financing for such investments.** In order to remain competitive, semiconductor manufacturers generally must spend heavily on equipment to maintain or increase manufacturing capacity and capability. We have budgeted for approximately $380.0 million in expenditures on equipment in 2000 and anticipate significant continuing capital expenditures in subsequent years. In the past, we have reinvested a substantial portion of our cash flow from operations in capacity expansion and improvement programs. However, our cash flows from operations depend primarily on average selling prices, which generally decline over time, and on the per-unit cost of our products.

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

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

**We face additional problems and uncertainties associated with international operations that could seriously harm us.** International sales represented approximately 50% of our revenues during the nine months ended October 1, 2000 and 44% of our revenues during the same period in fiscal 1999. Our offshore assembly and test operations, as well as our international sales, face risks frequently associated with foreign operations, including:

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



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

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

**We depend on third parties to transport our products and could be harmed if these parties experience problems.**
We rely on independent carriers and freight forwarders to move our products between manufacturing plants and to our customers. We have limited control over these parties; however, any transport or delivery problems because of their errors, or because of unforeseen interruptions in their activities due to factors such as strikes, political instability, natural disasters and accidents, could seriously harm our business, financial conditions and results of operations and ultimately impact our relationship with our customers.

**We may fail to integrate our business and technologies with those of companies we have recently acquired and that we may acquire in the future.**
We completed four acquisitions in calendar year 1999, four acquisitions in the first nine months of 2000, and may pursue additional acquisitions in the future. If we fail to successfully or properly integrate these businesses, our quarterly and annual results may be seriously harmed. Integrating additional businesses, products and services could be expensive, time-consuming and a strain on our resources. Specific issues that we face with regard to prior and future acquisitions include:

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



**Item 3 Quantitative and Qualitative Disclosure About Market Risk**

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

The fair value of Cypress s investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of Cypress s investment portfolio. An increase in interest rates would not significantly increase interest expense due to the fixed nature of Cypress s debt obligations. Cypress also has certain debt obligations with a variable rate structure, based on LIBOR plus a fixed adder. The interest rates on these obligations will vary with changes in LIBOR. However, because this debt is securitized with interest bearing investments or cash, interest income will offset any interest expense changes and there will be no material effect to Cypress s financial performance.

A majority of Cypress s revenue and capital spending is transacted in U.S. dollars. However, Cypress does enter into transactions in other currencies, primarily Japanese yen and the Euro. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, Cypress has established revenue and balance sheet hedging programs. Cypress s hedging programs reduce, but do not always eliminate, the impact of foreign currency rate movements. There have been no significant changes in the market risk disclosures during the nine months ended October 1, 2000 as compared to the discussion in our 1999 Annual Report on Form 10-K for the year ended January 2, 2000.

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**PART II. OTHER INFORMATION**

**Item 1 Legal Proceedings**

The information required by this item is included in Part I in Note 17 of Notes to the Condensed Consolidated Financial Statements and is incorporated herein by reference.

**Item 6 Exhibits and Reports on Form 8-K**

***a. Exhibits***

Exhibit 27.1 Financial Data Schedule.

***b. Reports on Form 8-K***

On July 11, 2000, Cypress filed a report on Form 8-K, which reported under Item 5, that on June 26, 2000, Cypress completed the offering of our 3.75% Convertible Subordinated Notes due July 1, 2005, and reported under Item 7, the subordinated indenture related to these securities.

On July 27, 2000, Cypress filed a report on Form 8-K, which reported under Item 5, that on June 29, 2000, Cypress completed the acquisition of RadioCom Corporation which was accounted for as a purchase

On September 20, 2000, Cypress filed a report on Form 8-K, which reported under Item 5, that on August 30, 2000, Cypress completed the acquistition of Silicon Light Machines.

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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 CORORATION

By: /s/ T.J. RODGERS

T.J. Rodgers
President and Chief Executive Officer

By: /s/ EMMANUEL HERNANDEZ

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

Dated: January 22, 2001

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