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CYPRESS 3.0

CONNECT AND COMPUTE

2018 ANNUAL REPORT

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Dear Shareholders,

2018 was a great year for Cypress as we continued executing our strategy and gaining momentum on multiple fronts. We set an all-time revenue record of $2.5 billion, increasing 7% over 2017, driven by Connect and Compute solutions for our two focus end-markets of IoT and Automotive. We also achieved real progress toward making Cypress an even more desirable company for all stakeholders. Our talented team brought its best every day to deliver on business objectives, while building sustainable, long-term value for our people, customers, communities and investors. This commitment and mindset are at the heart of our culture and everything we do.

Our People

The talent and motivation of our people move Cypress forward. With this in mind, we actively focus on strengthening the diversity, skills and culture of our team. Our many global activities include an Affinity Group to support Cypress's female leaders with networking and mentoring opportunities, a New College Graduate platform that infuses fresh skills and thinking into the organization and a program to consistently train and develop effective managers worldwide.

We are also doubling down on building a culture where people care deeply about our customers and are empowered with rapid insights, learning and support to solve their problems. Beyond our constant priority of creating the best products, we are investing in key service and support touchpoints that bring tangible value to our customers. Of course, all of our plans depend on highly-engaged employees, so I'm happy to highlight our 2018 company survey results showing team engagement levels to be ~2x higher than industry benchmarks!

In addition, our Board is well prepared to support shareholders and management with members that bring an enhanced diversity of skills and experience aligned with our Cypress 3.0 direction.

Our Planet

Another important aspect of building sustainable value for our shareholders lies in how we help solve problems for our planet. Community, Education and Environment are three areas where Cypress makes a big difference in every region. Our impact includes thousands of volunteer hours and significant financial contributions to organizations like Silicon Valley's Second Harvest Food Bank and other charitable groups within our communities around the world. We also invest in our operations to help protect the environment including the installation of solar panels, fuel cells and electric vehicle charging stations. On the topic of the environment, if you are receiving your annual meeting materials (including our proxy statement) by physical mail, we encourage you to help us conserve natural resources by signing up to receive your stockholder communications via e-mail at www.cypress.com/edelivery-enrollment. We truly believe in the long-term benefits of improving the larger ecosystem we all depend on.

Our Performance

We are expanding our leadership in core high-growth markets of Automotive and IoT by solving the Connect and Compute problems that matter most to our customers. The industry is taking notice of Cypress as our brand awareness has doubled over the past two years with meaningful increases in purchase consideration and positive sentiment.

In addition to solid 2018 revenue growth, we successfully achieved our non-GAAP gross margin targets, exiting the fourth quarter at 47.8%, an improvement of 1,080 basis points since launching our Cypress 3.0 strategy in 2016. This margin expansion came from a lot of hard work and bold strategic moves, including a rationalization of our supply chain, the introduction of critical new products and a restructuring of our memory business to exit lower-margin commodities and focus on more stable and predictable specialty storage applications for automotive, industrial and enterprise customers.

Last, but certainly not least, Cypress achieved a 22.8% non-GAAP operating margin and $1.36 in non-GAAP earnings per share, representing a 53% increase year-over-year. We increased free cash flow by 16% over 2017, while returning 47% of total free cash flow to shareholders through dividends and share repurchases.

Our Potential

Cypress's momentum is growing as we relentlessly execute our strategy to capture massive potential within the most exciting megatrends of our time including the IoT and the Automotive experience of the future. We win by combining our portfolio of leading Connect and Compute products with the passion, talent and problem-solving power of our people. Our highly-engaged team works hard every day to build lasting value for our employees, customers, communities and shareholders.

We deliver the winning innovations embedded in tomorrow because Cypress does not wait for the future - we create it!

Thank you,

Hassane El-Khoury

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 30, 2018

or

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

For the transition period from to .

Commission file number: 1-10079

Cypress Semiconductor Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	The Nasdaq Global Select Market

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

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The market value of voting and non-voting common stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on July 1, 2018 as reported on the Nasdaq Global Select Market, was approximately $4.4 billion. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from the foregoing calculation in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 20, 2019, 363,878,456 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 30, 2018 are incorporated by reference in Items 10 - 14 of Part III of this Annual Report on Form 10-K.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 30, 2018

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this "Annual 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. Forward-looking statements are not historical facts and include statements relating to, among other things, the future results, operations, strategies, and prospects of Cypress Semiconductor Corporation and its consolidated subsidiaries ("Cypress," the "Company," "we," or "us"), and can in some cases be identified by our use of words such as "may," "will," "should," "plan," "anticipate," "believe," "expect," "future," "intend," "estimate," "predict," "potential," "continue," and similar expressions. This Annual Report includes, among others, forward-looking statements regarding: our expectations regarding dividends, debt repayments, and stock repurchases; our expectations regarding restructuring plan costs and effects; our expectations regarding active litigation matters; the sufficiency of our cash, cash equivalents, and borrowing arrangements to meet our requirements for the next 12 months; possible recognition of certain unrecognized tax benefits within the next 12 months; and the potential impact of our indemnification obligations. Our forward-looking statements are based on the expectations, beliefs and intentions of, and the information available to, our executive management on the filing date of this Annual Report. Readers are cautioned not to place undue reliance on forward-looking statements. Except as required by law, we assume no responsibility to update our forward-looking statements.

The forward-looking statements in this Annual Report involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: potential disruptions in the international trade and investment environment, including deteriorating relationships between the U.S. government and foreign governments; the current and future state of the general economy and its impact on the markets and consumers we serve (including credit conditions); our ability to execute on our Cypress 3.0 strategy and our margin improvement plan; potential volatility in our stock price; risks related to paying down our indebtedness and meeting the covenants set forth in our debt agreements; our efforts to retain and expand our customer base (which may be adversely affected if we were to raise prices) in the intensely competitive and rapidly evolving semiconductor industry; risks related to significant supply and demand volatility in semiconductor markets (including the challenges of forecasting demand, scheduling production, and making timely delivery on customer orders); risks related to our strategy of developing and maintaining a leading portfolio of programmable microcontroller, connectivity and memory products; risks related to our flexible manufacturing strategy (and the challenge of efficiently managing a smaller number of manufacturing facilities while increasing our reliance on third-party manufacturers); our reliance on distributors and resellers; risks related to our "take or pay" agreements with certain vendors; the risk of defects, errors, or security vulnerabilities in our products; risks related to the integrity of our information systems, including the possibility of cyber-attacks, business-activity disruption, and loss or corruption of sensitive data; changes in tax law and policy; risks related to our pending tax examinations; risks related to our tax incentive/holiday arrangements in Malaysia and Thailand; our efforts to remediate any material weakness in our internal control over financial reporting; potential lack of liquidity for certain strategic investments (including the challenge of disposing of businesses, product lines, or assets on favorable terms in a timely manner); risks related to our restructuring activities; the failure or success of the privately-held companies in which we are invested; the challenges of effectively integrating companies and assets that we acquire; the possibility of impairment charges; the challenges of attracting and retaining key personnel; risks related to our reliance on stock-based compensation; possible changes to our dividend policy; risks related to our share repurchase authorization; the uncertain nature of business outlook guidance; risks related to industry consolidation and the challenge of competing effectively against a smaller number of stronger companies; the challenges of adequately protecting our intellectual property rights and risks of intellectual property litigation; the possibilities that activist stockholders could negatively affect our business and that our deferred tax assets could be negatively impacted by changes in our stockholder base; risks associated with international operations; the challenges and costs of complying with environmental, data privacy, health/safety, and other laws; risks related to "conflict minerals" reporting; the possibility of business disruptions due to natural disasters; risks arising from indemnification commitments to our officers and directors; our ability to manage our financial investments and interest rate and exchange rate exposure; and the uncertainty and expense of pending litigation matters. These and other factors are described in more detail in Part I, Item 1A (Risk Factors) of this Annual Report.

PART I

ITEM 1. Business

General

Cypress manufactures and sells advanced embedded system solutions for automotive, industrial, consumer and enterprise end markets. Cypress' microcontrollers, analog ICs, wireless and wired connectivity solutions and memories help engineers design differentiated products and help with speed to market. Cypress is committed to providing customers with quality support and engineering resources.

Cypress was incorporated in California in December 1982 and reincorporated in Delaware in September 1986. Our stock is listed on the Nasdaq Global Select Market under the ticker symbol "CY".

Our corporate headquarters are located at 198 Champion Court, San Jose, California 95134, and our main telephone number is (408) 943-2600. We maintain a website at *www.cypress.com*. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

Our fiscal 2018 ended on December 30, 2018, fiscal 2017 ended on December 31, 2017, and fiscal 2016 ended on January 1, 2017.

Acquisitions & Divestitures

In July 2016, we completed the acquisition of certain assets primarily related to the wireless Internet of Things ("wireless IoT business") of Broadcom Corporation ("Broadcom") pursuant to an Asset Purchase Agreement with Broadcom dated April 28, 2016, for a total purchase consideration of $550 million.

In March 2017, we completed the sale of our wafer fabrication facility in Minnesota.

In August 2018, we completed the acquisition of an embedded software company focused on the IoT market for cash consideration of $3 million.

In October 2018, we signed a definitive agreement to transfer our NAND flash business to a joint venture ("JV") with SK hynix system ic Inc ("SKHS"). The transaction is subject to customary closing conditions and regulatory approvals. We presently expect that the transaction will be completed by the end of the first quarter of fiscal 2019. In addition to our NAND flash business, we will contribute $2.4 million in cash towards the equity of the JV. We will own 40% of the JV's common stock. The NAND business is presently reported as part of the MPD segment. We recognized $167.3 million, $168.1 million and $180.5 million in revenue from the NAND business for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, respectively.

Business Strategy

During fiscal 2016, we launched various long-term strategic corporate transformative initiatives, which we collectively refer to as "Cypress 3.0". Cypress 3.0 objectives are designed to increase our focus on becoming a solution-driven company by capitalizing on our broad product portfolio to extend our penetration into global markets such as the automotive, industrial, consumer, and enterprise markets; increase ease of doing business; improve operating margin; redeploy personnel and resources to target market segments that are expected to grow faster than the semiconductor industry; and streamline our internal processes.

Our revenue and profitability model is based on the following product and market strategies: (a) focus on providing customers with complete solutions, including multiple Cypress products where applicable, and supporting software, (b) growing revenue from our programmable solutions and

derivatives, (c) increasing our connectivity revenue through the introduction of new products and (d) maintain profitability in our storage products by leveraging our market position and expanding our portfolio. We monitor our operating expenses closely to improve our operating leverage as driven by various company-wide initiatives.

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

Business Segments

We continuously evaluate our reportable business segments in accordance with the applicable accounting guidance. We currently operate under two reportable business segments: Microcontroller and Connectivity Division ("MCD") and Memory Products Division ("MPD").

Business Segments	Description
Microcontroller and Connectivity Division	MCD focuses on connect and compute solutions for the Internet of Things and automotive solutions that enhance the in-cabin user experience. MCD offerings include robust wireless and wired connectivity solutions that combine with flexible, high-performance microcontroller (MCU) and analog solutions, backed with a focus on superior design software. The portfolio includes Wi-Fi®, Bluetooth® and Bluetooth Low Energy solutions and wireless combo solutions; Traveo™ automotive MCUs, PSoC® programmable MCUs and general-purpose MCUs; CapSense® capacitive-sensing controllers and automotive TrueTouch® touchscreen solutions; a broad line of USB controllers, including solutions for the USB-C and USB Power Delivery standards; and analog PMIC Power Management ICs. This division also includes our intellectual property (IP) business.
Memory Products Division	MPD focuses on fail-safe storage and datalogging solutions for mission critical applications. The portfolio includes specialized, high-performance parallel and serial NOR flash memories, NAND flash memories, static random access memories (SRAM), F-RAM™ ferroelectric memory devices, nonvolatile SRAMs (nvSRAM), and other specialty memories. This division also includes our nonvolatile DIMM subsidiary AgigA Tech Inc.

For additional information on our segments, see *Note 22* of the Notes to Consolidated Financial Statements under Part II, Item 8.

Product Overview

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

Products	Markets	Applications
Traveo™ MCUs, Flexible MCUs, PSoC® MCUs, CapSense® capacitive-sensing controllers and Automotive TrueTouch® touchscreen controllers	Automotive, industrial, consumer, computation, white goods, communications	Automotive instrument clusters, body electronics, power management and infotainment systems, factory automation, machine-to-machine systems, building management systems, smart meters, printers, industrial and automotive control applications, digital still and video cameras, smart home appliances, handheld devices and accessories, desktop and notebook PCs and peripherals, medical devices, white goods and many other applications.
Wi-Fi®, Bluetooth®, Bluetooth Low Energy and combo solutions	Automotive, industrial, consumer, white goods, home automation	IoT applications, wearables, smart home appliances, home automation, industrial automation equipment, connected cars, appliances, wireless headsets, consumer electronics, gamepads, remote controls, toys, presenter tools and many other applications.
EZ-PD™ controllers for USB-C with Power Delivery and USB controllers	Industrial, handset, PC and peripherals, consumer electronics, mobile devices, automotive	Automotive, printers, cameras, machine vision and other industrial equipment, handheld devices, VoIP phones, headsets, presenter tools, dongles, point of sale devices and bar code scanners, PCs and peripherals smartphones, USB-C power adapters, USB-C adapter cables, monitors, docking stations and many other applications.
Analog PMICs and energy harvesting solutions	Automotive, industrial, consumer	Instrument cluster systems, Advanced Driver Assistance Systems (ADAS), body control modules, factory automation, IoT beacons, wireless sensor nodes and many other applications.

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

Products	Markets	Applications
NOR Flash and HyperFlash™	Automotive, industrial	Automotive advanced driver assistance systems (ADAS), automotive instrument cluster, automotive infotainment systems, security systems, industrial control and automation systems, networking routers and switches and many other applications.
NAND Flash	Consumer, Networking, Industrial, Automotive	Set-top-boxes, networking modems, networking equipment, audio systems/smart speakers, automotive infotainment systems, point-of-sale systems, consumer and industrial security camera systems, industrial control and automation systems, smart home appliances, and many other applications.
RAM: Asynchronous and Synchronous SRAM, HyperRAM™, F-RAM and nySRAM	Automotive, industrial, networking, medical, telecommunications	Automotive systems, industrial control and factory automation systems, enterprise switches and routers, servers, smart meters, aerospace and defense, medical systems, point-of-sale terminals, gaming, printers, and test equipment.
Specialty Memories and Clocks	Networking, telecommunication, video, data communications, computation	Medical and instrumentation, storage, wireless infrastructure, military communications, video, data communications, telecommunications, and network switching/routing, set-top boxes, copiers, printers, HDTV, industrial automation, printers, single-board computers, IP phones, and image processors.

Manufacturing

Our "flexible manufacturing" strategy combines capacity from external foundries with output from our internal manufacturing facilities which allows us to meet fluctuations in customer demand while limiting capital expenditure requirements and lessening the burden of high fixed costs, a capability that is important with our rapidly evolving product portfolio and revenue growth.

As of the end of fiscal year 2018, we owned a wafer fabrication facility in Austin, Texas. External wafer foundries, mainly in Asia, manufactured approximately 63% of our wafers (8 inch equivalent).

We conduct assembly and test operations at our back-end manufacturing facilities in Cavite, Philippines and Bangkok, Thailand, which contribute to better leverage of manufacturing cost. External assembly and test subcontractors in Asia account for approximately 72% of the total assembly output and 62% of the total test output. Various assembly and test subcontractors in Asia perform the balance of the assembly and test operations.

We have manufacturing services agreements primarily with the following partners:

- Advanced Semiconductor Engineering, Inc. (“ASE”)—Agreements for chip scale packing services;
- Amkor J Devices—Agreements for assembly and test services;
- Deca Technologies Inc.—Agreement for chip scale packaging services.
- Fujitsu Semiconductor Limited—Agreements for foundry, sort and assembly and test services;
- HuaHong Grace Semiconductor Manufacturing Corporation (“Grace”)—Agreement for foundry services;
- Semiconductor Manufacturing International Corporation (“SMIC”)—Agreements for foundry services;
- Skywater Technologies Inc.—Agreement for foundry services;
- Taiwan Semiconductor Manufacture Company (“TSMC”)—Agreement for foundry services;
- United Microelectronics Corporation (“UMC”)—Agreement for foundry services;
- United Test and Assembly Center Ltd—Agreement for assembly and test services; and
- Wuhan Xinxin Semiconductor Manufacturing Corporation (“XMC”)—Agreement for foundry services.

Sales and Marketing

We sell our semiconductor products through several channels: distributors; manufacturing representative firms; and sales by our sales force directly to original equipment manufacturers and their suppliers.

Our marketing activities target customers, reference design houses and our potential partners; and include a variety of direct marketing activities, such as trade shows, events and sponsored activities. We augment our sales effort with field application engineers, specialists in our products, technologies and services who work with customers to design our products into their systems. Field application engineers also help us identify emerging markets and new products.

Outstanding accounts receivable from Fujitsu Electronics Inc., one of our distributors accounted for 25% of our consolidated accounts receivable as of December 30, 2018 and 28% of our consolidated accounts receivable as of December 31, 2017.

Revenue generated through Fujitsu Electronics Inc. and Arrow Electronics, two of our distributors, accounted for 18% and 14%, respectively, of our consolidated revenues for fiscal 2018, and 20% and 13% of our consolidated revenues for fiscal 2017, respectively. Revenue generated through Fujitsu Electronics Inc., one of our distributors, accounted for 23% of our consolidated revenues for fiscal 2016. No other distributor or end-customer accounts for 10% or more of our revenue.

Backlog

Our sales typically rely upon standard purchase orders for delivery of products with relatively short delivery lead times. Customer relationships are generally not subject to long-term contracts. Although we have entered into long-term supply agreements with certain customers, products to be delivered and the related delivery schedule under these long-term contracts are frequently revised. Accordingly, we believe that our backlog is not a meaningful indicator of future revenues.

Competition

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

- our success in developing new products and manufacturing technologies;
- delivery, performance, quality and price of our products;
- diversity of our products and timeliness of new product introductions;
- cost effectiveness of our design, development, manufacturing and marketing efforts;
- quality of our customer service, relationships and reputation;
- overall success with which our customers market and sell their products and solutions that incorporate our products; and
- number and nature of our competitors and general economic conditions.

We face competition from domestic and foreign semiconductor manufacturers, many of which have advanced technological capabilities and greater brand recognition and have increased their participation in the markets in which we operate. We compete with a large number of companies primarily in the automotive, industrial, consumer, and enterprise markets. Companies that compete directly with our businesses include, but are not limited to, Adesto, Everspin Technologies, Fujitsu, GigaDevice Semiconductor, GSI Technology, Hynix, Integrated Silicon Solution, Macronix, Marvell, MediaTek, Microchip Technology, Micron Technology, Nordic Semiconductor, NXP Semiconductors NV, Qualcomm, Realtek, Renesas, Richtek, Semtech, Silicon Laboratories, ST Microelectronics, Texas Instruments, Toshiba, VIA Labs, XMC and Winbond.

Environmental Regulations

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

did not cause or know of the contamination. While to date we have not experienced any material adverse impact on our business from environmental regulations, we cannot provide assurance that environmental regulations will not impose expensive obligations on us in the future, or otherwise result in the incurrence of liabilities such as the following:

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

Intellectual Property

We have an active program to obtain patent and other intellectual property protection for our proprietary technologies, products and other inventions that are aligned with our strategic initiatives. We rely on a combination of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position in the domestic and international markets we serve. As of the end of fiscal 2018, we had approximately 3,450 issued patents and approximately 644 additional patent applications on file domestically and internationally. In addition, in fiscal 2019 we are preparing to file up to 40 new patent applications in the United States and up to approximately 50 foreign application predominantly in Europe and Asia. The average remaining life of our domestic patent portfolio is approximately 8.9 years.

In addition to factors such as innovation, technological expertise and experienced personnel, we believe that patents are increasingly important to remain competitive in our industry, defend our position in existing markets and to facilitate the entry of our proprietary products into new markets. As our technologies are deployed in new applications and we face new competitors, we will likely subject ourselves to new potential infringement claims and discover third-party infringement of our intellectual property. Patent litigation, if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources. We are committed to vigorously defending and protecting our investment in our intellectual property. We believe the strength of our intellectual property program, including the breadth and depth of our portfolio, will be critical to our success, although, our business as a whole is not significantly dependent on any single patent, copyright, or other intellectual property right.

In addition to developing patents based on our own research and development efforts, we license some patents from third parties, and we may purchase or license additional patents from third parties. Established competitors in existing and new industries, as well as companies that purchase and enforce patents and other intellectual property, may obtain or already have patents that allegedly or otherwise cover products similar to ours. There is no assurance that we will be able to obtain patents covering our own products or that we will be able to obtain licenses from other companies on favorable terms or at all.

We review our intellectual property portfolio from time to time to identify opportunities to derive additional value from our assets. We may consider selling certain patents that no longer align with our patent strategies as well as employ other monetization models for our patent portfolio. From time to time we have divested patents that were not relevant to our current business. Divestiture of patents may lead to future contingent or non-contingent income.

Employees

As of December 30, 2018, we had 5,846 employees. Geographically, 1,819 employees were located in the United States, 964 in the Philippines, 924 in Thailand, 592 in India, 457 in Japan, 341 in Malaysia, 297 in Greater China, 242 in Europe, and 210 in other countries. Of the total employees, 3,220 employees were associated with manufacturing, 1,481 with research and development, and 1,145 with selling, general and administrative functions.

Executive Officers of the Registrant as of December 30, 2018

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

Name	Age	Position
Hassane El-Khoury	39	President, Chief Executive Officer and Director
Thad Trent	51	Executive Vice President, Finance and Administration, and Chief Financial Officer
Sudhir Gopalswamy	49	Executive Vice President, Microcontroller and Connectivity Division
Sam Geha	53	Executive Vice President, Memory Products Division
Pamela Tondreau	59	Executive Vice President, Chief Legal and Human Resources Officer, and Corporate Secretary

Hassane El-Khoury has served as the president and chief executive officer of Cypress, and as a member of our Board of Directors, since August 2016. He previously served as executive vice president of Cypress's Programmable Systems Division from 2012 to 2016, managing the company's standard and programmable microcontroller portfolio, including its Platform PSoC family of devices, and its automotive business. Prior to that, from 2010 to 2012, he served as a senior director of Cypress's automotive business unit. Prior to joining Cypress, Mr. El-Khoury served in various engineering roles with subsystem supplier Continental Automotive Designs, where he spent time based in the U.S., Germany, and Japan. He holds a Bachelor of Science degree in electrical engineering from Lawrence Technological University and a master's degree in engineering management from Oakland University.

Thad Trent has served as chief financial officer and executive vice president of finance & administration at the Company since June 2014. Mr. Trent joined Cypress in 2005 and became a vice president of finance in 2010. Prior to serving as chief financial officer, he led the strategic planning functions for the Company's business units and worldwide operations and he managed the financial reporting, accounting, and planning and analysis functions for the Company. Before joining the Company, Mr. Trent held finance leadership roles at publicly traded companies Wind River Systems, a developer of embedded systems software, and Wyle Electronics, a distributor of high-tech electronic components, as well as two technology startups. He currently serves on the boards of directors of AgigA Tech, Inc., which is a majority-owned Cypress subsidiary selling high-performance non-volatile memory, and Deca Technologies Inc., one of our equity investees which is seeking to develop a fan-out wafer level packaging technology. Mr. Trent holds a Bachelor of Science degree in business administration and finance from San Diego State University.

Sudhir Gopalswamy has served as executive vice president of the microcontroller and connectivity division at the Company since February 2018, having previously served as the senior vice president of MCD from May 2016 to February 2018. In his role, Mr. Gopalswamy is responsible for all aspects of the MCD business. Mr. Gopalswamy joined the Company in 2008 and has managed a variety of business units, including the timing solutions business unit from 2009 to 2011, the synchronous SRAM business unit from 2011 to 2014, and, as a vice president, the MCU business unit from July 2014 to May 2016. Prior to joining the Company, Mr. Gopalswamy worked at Conexant Systems, Inc., a fabless semiconductor company, where he was responsible for the cable set-top box product line. Before Conexant, he spent nine years at Intel Corporation, one of the world's leading semiconductor companies, where he held management and leadership roles of increasing responsibility, spanning the computing, communications / networking, and consumer electronics segments. Mr. Gopalswamy holds a Bachelor of Science degree in electrical engineering (BSEE) from Purdue University and a Master of Business Administration degree from Duke University.

Sam Geha, Ph.D., has served as executive vice president of the memory products division at the Company since February 2018, having previously been the senior vice president of MPD from September 2016 to February 2018. Mr. Geha is responsible for all aspects of the MPD business. Previously, he served as the senior vice president of the intellectual property (IP) business unit since June 2015, having managed the IP business unit since June 2013, where he oversaw licensing of the Company's various embedded nonvolatile memory technologies (SONOS and eCT) to foundries, including UMC, HLMC and HH-Grace, as well as licensing of the Company's 3D NAND technology to XMC. Prior to that, he served as vice president of the technology R&D organization since May 2007. Mr. Geha joined the Company in 1995 and has served as the senior director of technology development for SONOS and the director of technology development for MRAM and SRAM technologies. Prior to joining the Company, he worked in various technology development functions at Motorola, a telecommunications equipment company, and National Semiconductor Corporation, a semiconductor manufacturer. Mr. Geha is currently a board member of one of the Company's equity investees, Enovix, a silicon-based lithium-ion battery start-up. He holds a Bachelor of Science degree in electrical engineering, a Master of Science degree in electrical engineering, and a philosophical doctorate in electrical engineering from the University of Arizona.

Pamela L. Tondreau serves as our executive vice president, chief legal and human resources officer, and corporate secretary. She has overseen all of Cypress's legal matters since joining the Company in October 2014, initially as interim general counsel, then as senior vice president and general counsel starting in January 2015, then as senior vice president and chief legal officer starting in September 2016, and most recently as executive vice president and chief legal officer from February 2018 to the present. In addition, Ms. Tondreau assumed oversight responsibility for the Company's human resources function in November 2017 and has served as our corporate secretary since January 2015. Prior to joining the Company, Ms. Tondreau spent nearly 13 years at Hewlett-Packard Company (now HP Inc.), a multinational information technology company, in various roles, including chief intellectual property counsel and deputy general counsel to the chief technology officer, HP labs, HP networking, IP licensing, strategic initiatives and global alliances. In addition, she supported the chief marketing officer, the chief information officer and the executive vice president of personal systems, as well as serving as corporate secretary to the technology committee of Hewlett-Packard's board of directors. Prior to her time at Hewlett-Packard, Ms. Tondreau was an associate at the law firm of Thelen, Marrin, Johnson & Bridges (now Thelen LLP), serving as both a litigation and corporate attorney. She currently serves on the board of directors of AgigA Tech, Inc. Ms. Tondreau holds a bachelor's degree from U.C. Berkeley and a J.D. degree from McGeorge School of Law.

Available Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, free of charge on our website at *www.cypress.com*, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). By referring to our website, we do not incorporate such website or its contents into this Annual Report on Form 10-K.

Additionally, copies of materials filed by us with the SEC may be accessed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at *www.sec.gov*. For information about the SEC's Public Reference Room, contact 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Unfavorable economic and market conditions, domestically and internationally, have affected and may in the future adversely affect our business, financial condition, results of operations and cash flows or may contribute to uncertainty of our business.

We have significant customer sales both in the U.S. and internationally. We also rely on U.S. and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions. If any of our manufacturing partners, customers, distributors or suppliers experience serious financial difficulties or cease operations, our business will be adversely affected and such effects may be material. In addition, the adverse impact of an unfavorable economy on consumers, including high unemployment rates, may adversely impact consumer spending, which would adversely impact demand for many end products in which our products are embedded. Any reduction in our customers' sales of their end-products, and/or any apprehension among our distributors and customers of a possible reduction in such sales, would likely cause an indirect negative impact on our own sales. Even prior to a widespread economic downturn, the related uncertainty and the market's fear of deteriorating conditions might cause our distributors and customers to place fewer orders for our products. Moreover, commodity prices may be more volatile in times of economic turmoil. High or volatile commodity prices increase the cost of doing business and adversely affect consumers' discretionary spending. As a result of the difficulty that businesses (including our customers) may have in obtaining credit and the decreased consumer spending that occurs during a recession, global economic turmoil (or uncertainty and apprehension over the possibility of economic turmoil), are likely to have an adverse impact from time to time on our business, financial condition, results of operations and cash flows and such effects may be material.

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

The trading price of our common stock is influenced by various factors, some of which are beyond our control, including, but not limited to:

- Revenue fluctuations due to unexpected shifts in customer demand;
- Announcements about our earnings or the earnings of our competitors that are not in line with analyst expectations;
- Our ability to execute on our long term strategic corporate transformation initiatives, collectively known as our Cypress 3.0 initiatives;
- Credit conditions and our ability to refinance our existing debt at commercially reasonable terms, which may limit the Company's working capital;
- Quarterly variations in our results of operations or those of our competitors;
- Announcements by us or our competitors of acquisitions, new products, significant contracts, design wins, commercial relationships or capital commitments;
- The perceptions of general market conditions in the semiconductor industry (including recent trends toward consolidation in the semiconductor industry) and global market conditions;
- Our ability to develop and market new and enhanced products on a timely basis;
- Any major change in our board or senior management;
- Changes in governmental regulations or in the status of our regulatory compliance that impact our business;

- Recommendations by securities analysts or changes in earnings estimates concerning us or our customers or competitors;
- The volume of short sales, hedging and other derivative transactions on shares of our common stock;
- Economic conditions and growth expectations in the markets we serve;
- Changes in our policy regarding dividends or our ability to declare a dividend;
- Changes in our policy regarding stock repurchases or our ability to repurchase shares of our common stock;
- Supply disruption or price increases from third-party manufacturing partners;
- Our ability to generate sufficient cash flow to repay debt and
- Litigation, including any disputes or legal proceedings associated with activist investors.

As a result of these and other factors, the trading price for our common stock has been and will likely continue to be volatile.

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

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

We incur indebtedness to finance our operations and we have substantial amounts of outstanding indebtedness and debt service requirements. Our credit facility contains customary affirmative, negative and financial covenants, including a maximum total leverage ratio. Our ability to meet our payment and other obligations and covenants under our indebtedness depends on our ability to generate significant cash flow. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. There is no assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing (or any amended) credit facilities or otherwise, in an amount sufficient to enable us to meet payment obligations under any indebtedness we may incur from time to time. If we are not able to generate sufficient cash flow to service our debt obligations or meet required debt covenants, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. There is no assurance that we will be able to implement any of these alternatives on commercially reasonable terms, if at all. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under any indebtedness we owe. In addition, an inability to meet our payment obligations under any indebtedness may trigger a default, and possible acceleration of payment terms, under the applicable debt financing agreements.

Furthermore, the interest rate on certain of these instruments is tied to short term interest rate benchmarks including the Prime Rate and LIBOR. Interest rates have remained at historically low levels for a prolonged period of time. If the rate of interest we pay on our borrowings increases it would increase our debt-related expenditures. There is no assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing (or any amended) credit facilities or otherwise, in an amount sufficient to enable us to meet payment

obligations (including any increased interest payment obligations) under any indebtedness we may incur from time to time.

The principal amount of our debt outstanding as of December 30, 2018 was $935.8 million which primarily included:

- $476.3 million Term Loan B
- $150 million of our 2% 2023 Exchangeable Notes
- $287.5 million of our 4.5% 2022 Senior Exchangeable Notes and
- $12 million of our 2% 2020 Spansion Exchangeable Notes

See *Note 15* of the Notes to Consolidated Financial Statements for more information regarding our debt obligations.

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

The semiconductor industry is intensely competitive. This intense competition results in a difficult operating environment that is marked by erosion of average selling prices over the life of each product and rapid technological change resulting in limited product life cycles. In order to offset selling price decreases, we attempt to decrease the manufacturing costs of our products and to introduce new, higher priced products that incorporate advanced features. If these efforts are not successful or do not occur in a timely manner, or if our newly introduced products do not gain market acceptance, our business, financial condition and results of operations could be seriously harmed.

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

- our ability to successfully execute on our long term strategic corporate transformation initiatives, collectively known as our Cypress 3.0 initiatives;
- our success in developing and marketing new products, software platforms and manufacturing technologies and bringing them to market on a timely basis;
- the quality and price of our products, and our ability to meet the specification requirements of our customers;
- the willingness of our customer base to absorb any increase in the price at which we sell our products;
- the pace at which customers incorporate our products into their systems, as is sometimes evidenced by design wins;
- the diversity of our product lines;
- the cost effectiveness of our design, development, manufacturing, support and marketing efforts, especially as compared to our competitors;
- our success in developing and introducing firmware in a timely manner;
- our customer service and customer satisfaction;
- our ability to successfully execute our flexible manufacturing strategy;
- the number, strength and nature of our competitors, the markets they target and the rate and success of their technological advances;

- the success of certain of our development activities including our investments in internal and external development stage startups;
- our ability to get competitive terms with our vendors, manufacturing partners and suppliers;
- general economic conditions;
- the cyclical nature of the semiconductor industry;
- our ability to maintain supply of products from third party manufacturers; and
- our access to and the availability of working capital.

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

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

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

- automotive applications including advanced driver assistance systems (ADAS), instrument clusters, infotainment systems, body electronics, connectivity, HVAC controls, event data recorders;
- industrial systems including factory automation equipment, smart electric meters, aerospace, industrial controls, point-of-sale terminals and test equipment;
- Wireless products including smart home applications, health and fitness, audio, automotive, medical and industrial devices;
- consumer electronics including wearable electronics, smartphones and other mobile devices, gaming consoles, game-pads, remote controls, toys, presenter tools, TVs, set-top boxes and fitness equipment;
- wireless telecommunications equipment;
- computers and computer-related peripherals;
- medical equipment; and
- networking equipment.

Any downturn, shift in product launch schedule or reduction in the growth of these industries could seriously harm our business, financial condition and results of operations. Further, pricing in the semiconductor industry is subject to significant volatility. As an example, pricing of memory products during fiscal 2017 was significantly impacted by industry conditions. We may be unable to anticipate or manage price volatility which may adversely impact our margins, market share, financial condition and results of our operations.

We order materials and build our products based primarily on our internal forecasts, and customer and distributor forecasts and secondarily on existing orders, which may be canceled under many circumstances. Because our markets can be volatile, based on consumer demand and subject to rapid

technological changes, our forecasts may be inaccurate, causing us to make too many or too few of certain products.

Our customers frequently place orders requesting product delivery almost immediately after the order is made, which makes forecasting customer demand even more difficult, particularly when supply is abundant. In addition, demand for our products could be materially different from our expectations due to changes in customer order patterns, including order deferrals or cancellations. If we experience inadequate demand, order cancellations, or a significant shift in the mix of product orders that makes our existing capacity and capability inadequate, our fixed costs per semiconductor produced will increase, which will harm our financial condition and results of operations.

Alternatively, if we should experience a sudden increase in demand, we will need to quickly ramp our inventory and/or manufacturing capacity to adequately respond to our customers. If we or our manufacturing partners are unable to ramp our inventory or manufacturing capacity in a timely manner or at all, we risk losing our customers' business, which could have a negative impact on our financial performance and reputation.

If we fail to develop, introduce and sell new products or fail to develop and implement new technologies, our ability to compete in our end markets will suffer and our financial results could be adversely impacted.

Like many semiconductor companies, which operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products, our future success depends on our ability to develop and introduce new products that customers choose to buy. Our new products, for example PSoC® products, our wireless connectivity products, USB-C, and Traveo™ microcontroller products, are an important strategic focus for us and therefore, they tend to consume a significant amount of our resources. The new products the market requires tend to be increasingly complex, incorporating more functions including software and security and operating at faster speeds than old products.

Increasing complexity generally requires additional features on a smaller chip. This makes manufacturing new generations of products substantially more difficult, costly and time consuming than prior generations.

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

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

Manufacturing semiconductors is a highly complex and precise process, requiring production in tightly controlled, clean-room environments. Even very small impurities in our manufacturing materials, defects in the masks used to print circuits on a wafer or other problems in the wafer fabrication process can cause a substantial percentage of products to be rejected and be non-functional. We and, similarly, our third-party foundry partners, may experience problems in achieving an acceptable success rate in the manufacture of wafers and the likelihood of facing such difficulties is higher due to our broad product portfolio and also in connection with the transition to new manufacturing methods. We may also experience manufacturing problems in our assembly and test operations (or the assembly and test operations of third-party partners) and in the introduction of new packaging materials. The

interruption of wafer fabrication, a reduction in available wafer supply, the failure to achieve acceptable manufacturing yields, or the inability to achieve acceptable levels of quality and security in our products as expected by our customers, including our customers in the automotive industry, at any of our facilities, or the facilities of our third-party foundry partners, would seriously harm our business, financial condition and results of operations.

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

We rely significantly on independent contractors to manufacture our products, which includes wafer fabrication, assembly, packaging and testing.

In March 2017, we divested a wafer fabrication facility (commonly called a fab or foundry) located in Bloomington, Minnesota, which reduced our internal manufacturing capacity though we continue to outsource manufacturing services from this facility. The purchaser operates the fabrication facility as a stand-alone business that manufactures wafers for Cypress and for other semiconductor companies. Although this transaction reduced our manufacturing footprint, it increased our reliance on third-party suppliers. Accordingly, if the owner of this Bloomington fabrication facility is unable to effectively operate the facility, faces financial difficulty, or is otherwise unable to meet our product demands, our supply of components may be adversely affected. Such events could lead to difficulties in delivering products to our customers on time and have a negative impact on our revenue and financial results.

If market demand for our products exceeds our internal manufacturing capacity and available capacity from our foundry partners, we may seek additional foundry manufacturing arrangements. A shortage in foundry manufacturing capacity, which is more likely to occur at times of increasing demand, could hinder our ability to meet demand for our products and therefore adversely affect our operating results. Suppliers may extend lead times, limit supplies or increase prices due to commodity price increases, capacity constraints or other factors, which may lead to supply interruptions which could materially harm our results of operations. In addition, greater demand for wafers produced by any such foundries without an offsetting increase in foundry capacity raises the likelihood of potential shortages and wafer price increases. Our operations would be disrupted if any of our foundry partners terminates its relationship with us, delays its shipments to us, or experiences financial difficulty and we are unable to arrange a satisfactory alternative to fulfill customer orders on a timely basis and in a cost-effective manner. There are also only a few foundry vendors that have the capabilities to manufacture our most advanced products. If we need to engage alternate sources of supply, such sources may be unavailable on commercially reasonable terms, or at all. Supply chain changes in the semiconductor industry are complicated, time-consuming, and costly and may disrupt longstanding business relationships that are otherwise advantageous. Due to the difficulty of engaging alternate sources of supply, if any of our key manufacturing facility partners experiences financial difficulties, we may accelerate purchases or commit to increase our purchases in order to build up inventories as a precautionary measure; however, this approach might increase our inventory carrying costs and expose us to inventory risks. Even if we are able to engage alternate sources of supply, we may encounter start-up difficulties or yield issues or incur additional costs. Shipments could be delayed significantly while these alternate sources are engaged and qualified for volume production.

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

Our foundry partners and assembly and test subcontractors have operations in locations that may suffer the impact of certain natural disasters and political risk, which could impact their ability to provide us with our products. We monitor these events closely, but if one of our third-party manufacturing partners were to suffer significant damage to its operations as a result of a natural disaster or other catastrophic events, our ability to timely meet consumer demand would suffer which would materially harm our results of operations.

We also rely on channel partners, including distributors, resellers, and third-party sales representatives. We continue to expand and change our relationships with our channel partners. Worldwide sales through our distributors accounted for approximately 72% of our revenue in fiscal year 2018. We rely on many channel partners to assist us in creating customer demand, providing technical support and other value-added services to our customers, filling customer orders, and stocking our products. We face ongoing business risks due to our reliance on our channel partners to create and maintain customer relationships where we have a limited or no direct relationship. Should our relationships with our channel partners or their effectiveness decline, or as we choose to terminate some channel partner relationships from time to time, we face the risk of declining demand which could affect our revenue and results of operations. Such decline could be short-term, as we work to build in-house capacity or otherwise replace the affected channel partners, or long-term if the replacements are less efficient at accessing end customers. In addition, some of our channel partners are affiliated with companies from which we source materials or with which we have other business relationships, so any deterioration in our dealings with such a channel partner may disrupt the broader relationship. Our contracts with our distributors may be terminated by either party upon notice. The termination of a significant distributor, reseller, or sales representative could (a) impact our revenue and limit our access to certain end customers, (b) result in the return of a material amount of inventory held by a terminated distributor or reseller that we may not be able to resell or have to resell at a loss, and (c) jeopardize our ability to collect accounts receivable originating through a terminated distributor or reseller. In addition, our distributors are located all over the world and vary in size and financial strength. Any disruptions to our distributors' operations such as lower sales, lower earnings, debt downgrades, the inability to access capital markets and/or higher interest rates could have an adverse impact on our business.

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

Finally, our customers source a variety of materials from various suppliers in addition to Cypress. The failure by third-party suppliers to meet our customers' materials requirements on a timely basis could negatively impact our customers' manufacturing schedules and reduce or delay our customers' demand for our products. For example, in 2018 a shortage of multi-layer ceramic capacitors, or MLCCs (a necessary component on many printed circuit boards), created challenges for manufacturers in multiple end markets. To the extent our customers experience shortages of necessary materials, they may be forced to slow production of their end products, with a corresponding decline in the rate at which they purchase materials from us.

We may not be able to consume minimum commitments under our "take or pay" agreements, which may have a material adverse impact on our earnings.

We have entered into agreements with certain vendors that include "take or pay" terms. Take or pay terms obligate us to purchase a minimum required amount of services or make specified payments in lieu of such purchase. We may not be able to consume minimum commitments under these take or pay terms, requiring payments to vendors, which may have a material adverse impact on our earnings.

Failures in our products (including security vulnerabilities, defects or other errors) as well as harms caused by the devices in which our products are embedded could expose us to significant costs and damage our business.

We are subject to the risks of product defects and products liability. Our products are inherently complex and from time to time defects or errors are detected only after the products are in use. Product defects and errata (deviations from published specifications) may result from problems in our product design or our manufacturing and assembly and test processes. Components and products we purchase or license from third-party suppliers, or obtain through acquisitions, may also contain defects. The design process interface in new domains of technology and the migration to integrated circuit technologies with smaller geometric feature sizes are complex and add risk to the design and manufacturing process. The use of devices containing our products to access untrusted content can further create a risk of exposing our products to viral or malicious activities. While we continue to focus on security issues and are taking measures to safeguard our products from cybersecurity threats, (including maintaining a rapid response team to investigate and respond to reports of security vulnerabilities) device capabilities continue to evolve, enabling more data and processes and increasing the risk of security failures.

Under our sales terms, we generally warrant our products will conform to published specifications and be free from defects in materials and workmanship for a period of one year, and we limit product warranty remedies to a credit of the original purchase price, repair, or replacement. Although our selling terms generally disclaim such liability, we face a risk that we might be held liable for other remedies, including consequential damages resulting from errors or defects in our products, that exceed our standard warranty remedies.

Further, the utilization of our products (and our customers' devices in which our products are embedded) by end users entails other products liability risks. We could face risks if products that we design, manufacture, or sell, or that include our technology, cause personal injury or property damage, even where the cause is unrelated to defects or errata. These risks may increase where our products are used in medical devices or other devices or systems relating to human health and safety.

Because our products and services are responsible for critical functions in our customers' products, defects or errata or security flaws in our products or services could have an adverse impact on us, on our customers and/or on the end users of our customers' products. Such adverse impacts could include product liability claims; product recalls; write-offs of our inventories, property, plant and equipment and/or intangible assets; costs of providing product refunds, repairs, or replacements as well as reimbursements of customer costs; unfavorable purchase commitments; a shift of business to our competitors; a decrease in demand for our products; damage to our reputation and to our customer relationships; costs of litigation defense and and/or damages; fines imposed by regulatory agencies; and other financial liability or harm to our business. The materialization of any of these risks could have an adverse impact on our results of operations and cash flows.

System security risks, data protection or privacy breaches, cyber-attacks and systems integration issues could disrupt our internal operations and/or harm our reputation, and any such disruption or harm could cause a reduction in revenue, increase our expenses, negatively impact our results of operation or otherwise adversely affect our stock price.

Like most technology companies, we are subject to cyber-attacks from time to time. We face a risk that experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential and proprietary information, potentially without being detected. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security

problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions and delays that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business on internal networks as well as on remote internet-connected third-party servers (sometimes called the "cloud"). Breaches of our security measures or those of our cloud services providers could create system disruptions or cause shutdowns or result in the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time, which may have a material impact on our business. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive than originally anticipated. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected us in the past, and in the future, could adversely affect our financial results, stock price and reputation.

Changes in U.S. and international tax legislation and tax policy could materially impact our business.

A majority of our revenue is generated from customers located outside the U.S. and a substantial portion of our assets, including employees, are located outside the U.S. In the past, tax administrations globally have considered initiatives which could substantially eliminate utilization or reduce our ability to claim net operating losses and foreign tax credits, and eliminate various tax deductions. If any of these proposals are constituted into law, they could have a negative impact on our financial position and results of operations.

We are subject to income and other taxes in the United States and various foreign jurisdictions. Our tax liabilities are affected by the amounts we charge in intercompany transactions for inventory, services, licenses, funding and other items. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with these intercompany transactions or other matters and may assess additional taxes or adjust taxable income on our tax returns as a result. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, uncertainties related to the interpretation of the Tax Cuts and Jobs Act of 2017 could materially impact our tax obligations and effective tax rate, as well as our business strategy and tax planning.

Our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities or changes in tax laws. In addition, various tax legislation has been introduced or is being considered that could significantly impact our tax rate, the carrying value of deferred tax assets, or our deferred tax liabilities. For example, the Organization for Economic Cooperation and Development (the "OECD") has recently recommended changes to numerous

long-standing international tax principles. If countries amend their tax laws to adopt certain parts of the OECD guidelines, this may increase tax uncertainty and may adversely impact our tax liabilities. Any of these changes could affect our financial performance.

If the tax incentive or tax holiday arrangements we have negotiated in Malaysia and Thailand change or cease to be in effect or applicable, in part or in whole, for any reason, or if our assumptions and interpretations regarding tax laws and incentive or holiday arrangements prove to be incorrect, the amount of corporate income taxes we have to pay could significantly increase.

We have structured our operations to maximize the benefit from various tax incentives and tax holidays extended to the Company in various jurisdictions to encourage investment or employment. Each tax incentive is separate and distinct from the others, and may be granted, withheld, extended, modified, truncated, complied with or terminated independently without any effect on the other incentives. The tax incentives are presently scheduled to expire at various dates within the next five years, subject in certain cases to potential extensions, which we may or may not be able to obtain. Absent these tax incentives, the corporate income tax rate in these jurisdictions that would otherwise apply to us would be between 20% and 30%. The tax incentives that we have negotiated are also subject to our compliance with various operating and other conditions. If we cannot, or elect not to, comply with the operating conditions included in any particular tax incentive, we will lose the related tax benefits and we could be required to refund previously realized material tax benefits. Depending on the incentive at issue, we could also be required to modify our operational structure and tax strategy, which may not be as beneficial to us as the benefits provided under the present tax concession arrangements. Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which could adversely affect our cash flows.

We have in the past and may in the future dispose of certain businesses, product lines or assets, which could adversely affect our results of operations and liquidity.

From time to time, we have divested certain businesses, product lines or assets, acquired or otherwise, that are no longer strategically important, and exited minority investments, and we may do so in the future, which could materially affect our cash flows and results of operations. If we decide to divest another business, product line, or assets, we may encounter difficulty in finding or completing such divestiture opportunity (or alternative exit strategy) on acceptable terms or in a timely manner. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to the business, product line or assets that we seek to dispose. In addition, any delay in the timing of a divestiture transaction may negatively impact our business operations or liquidity for a period of time. Alternatively, we may dispose of businesses, product lines, or assets at prices or on terms that are less favorable than we had anticipated. Even following a divestiture, we may be contractually obligated with respect to certain continuing obligations to customers, vendors, landlords, or other third parties. Accordingly, we may be dependent on the new owner (of such business, product line or manufacturing facility) to fulfill our continuing obligations to our customers. We may also have continuing obligations for pre-existing liabilities related to the divested assets or businesses. Such obligations may have a material adverse impact on our results of operations and financial condition. Any such dispositions could also result in disruption to other parts of our business, potential loss of employees or customers (especially if the new owner is unable or unwilling to assist us in fulfilling any continuing obligations to our customers), potential loss of revenue, negative impact on our margins, exposure to unanticipated liabilities or result in ongoing obligations and liabilities to us following any such divestiture. We may also incur significant costs associated with exit or disposal activities, related impairment charges, or both.

One type of divestiture is contribution of the applicable business, product lines, or assets to a joint venture in exchange for an interest in the venture, which exposes us to the risk that the joint venture might decline in value or not meet desired objectives. The success of joint venture investments depends on various factors over which Cypress might have limited or no control and requires ongoing and effective cooperation with strategic partners. Such risks could be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of any joint venture investment could be negatively impacted and lead to impairment charges.

In October 2018, we signed a definitive agreement to enter into a joint venture arrangement with SK hynix system ic Inc, under which we will contribute our full portfolio of single-level cell NAND flash memories (along with $2.4 million in cash) to the venture. The transaction is intended to reduce our exposure to a highly commoditized product line that has traditionally been volatile with low gross margins. The joint venture agreement is subject to closing conditions, including applicable regulatory approvals, which are not assured. Although we currently expect the transaction to close in the first quarter of fiscal 2019, we face a risk that it might not close on a timely basis, or at all. If the joint venture fails to close, we will not realize its anticipated benefits, which might have an adverse effect on our results of operations and stock price. Further, when the transaction closes we will transition our customer orders for NAND flash memories to the joint venture. Although we expect to have influence over the joint venture's operations, it will not be under our control, and we might be unaware of, or unable to correct, operating or product issues if they develop. Any failure by the joint venture to satisfy customer expectations could adversely impact our own relationships with customers and/or the reputation of our brand. In addition, we cannot assure you that the joint venture will be profitable. The joint venture's governing documents will not require it to distribute its profits (if any) regularly, or at all (apart from a commitment to distribute to us our share of profit on a specified portion of sales through January 31, 2021). We therefore face a risk that our investment might not generate meaningful cash flows to re-invest, for example, in higher-margin areas of our business.

Our restructuring initiatives might not be successful.

From time to time, we have implemented restructuring plans to reduce our operating costs and/or shift our expenditures to different areas of our business. However, if we have not sufficiently reduced operating expenses or if revenues are below our expectations, we may be required to engage in additional restructuring activities, which could result in additional restructuring charges. These restructuring charges could harm our results of operations. Further, our restructuring plans could result in potential adverse effects on employee capabilities, on our ability to achieve design wins, and our ability to maintain and enhance our customer base. Such events could harm our efficiency and our ability to act quickly and effectively in the rapidly changing technology markets in which we sell our products. In addition, we may be unsuccessful in our efforts to realign our organizational structure and shift our investments and focus to our high-growth businesses.

Our financial results could be adversely impacted if privately-held companies (that we have invested in) fail to develop and successfully bring to market new and proprietary products.

We have made a financial commitment to certain investments in privately-held companies. There can be no guarantee that such businesses will perform as expected or at all, launch new products and solutions as expected or gain market acceptance. During the fourth quarter of fiscal 2018, we determined that our investment in Deca Technologies Inc., which is accounted for as an equity method investment, was other-than temporarily impaired due to significant delays in Deca's commercialization and achievement of scalable production of certain key products, and consequently we recognized an impairment charge of $41.5 million. Similarly, during the fourth quarter of fiscal 2017, we determined that our investment in another equity investee, Enovix Corporation, was other-than temporarily impaired as Enovix did not achieve certain key planned product development milestones, and

consequently we recognized an impairment charge of $51.2 million. If these or any of our other privately-held companies fail to introduce new products and solutions or successfully develop new technologies, or if customers do not successfully introduce new systems or products incorporating the products or solutions offered by these businesses or if market demand for the products or solutions offered by these businesses do not materialize as anticipated or if these or any of our other privately-held companies are not able to raise capital to fund their operations, our business, financial condition and results of operations could be materially harmed as a result of impairment of the carrying value of our investments in such privately-held companies.

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

Acquisitions have been an important element of our overall corporate strategy and use of capital. We may from time to time evaluate and enter into discussions regarding a wide array of potential strategic transactions. These transactions could be material to our financial condition and results of operations. The process of integrating an acquired company, business, or technology has created, and may continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include, but are not limited to:

- Diversion of management time and focus from operating our business to integration challenges;
- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire;
- Successfully transitioning the current customer, supplier, foundry and other partnering relationships of the acquired company;
- Implementation or remediation of controls, procedures, and policies at the acquired company;
- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;
- In the case of acquired companies with global operations, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries;
- Failure to successfully further develop the acquired business or technology;
- Liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- Pending litigation or other known or unknown claims in connection with the acquired company, including claims by stockholders for breach of fiduciary duties, terminated employees, customers, former stockholders, or other third parties.
- To the extent a purchase agreement includes a non-competition and/or non-solicitation commitment by the seller, any breach or expiration of such commitment may expose us to additional competition if the seller decides to re-enter the relevant market or attempts to hire back its employees.

Our failure to address these and other risks or other problems encountered in connection with our past or current acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally. Current and future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or write-offs of goodwill, any of which could harm our financial condition or results. As a result, the anticipated benefit of any of our acquisitions may not be realized.

In 2016, we incurred a material impairment charge with respect to our goodwill, and we may in the future incur impairments in the value of our goodwill, intangibles and property, plant and equipment.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We test goodwill for impairment annually, and more frequently when events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In 2016, we conducted impairment testing on the goodwill in our legacy Programmable Solutions Division (“PSD”) and recorded an impairment charge of $488.5 million. In addition, our other long-lived assets which include intangibles and property, plant and equipment are evaluated for impairments whenever events or changes in circumstances indicate the carrying value may not be recoverable. Either of these situations may occur for various reasons, including changes in actual or expected income or cash flow. During the fourth quarter of fiscal 2016, we reorganized our reportable segments as a result of which goodwill was reallocated to new segments. We continue to evaluate current conditions to assess whether any impairment exists. Additional impairments could occur in the future if any of the following occur: deterioration in market or interest rate environments, significant adverse changes in business climate, unanticipated competition, loss of key customers, changes in technology, declines in future cash flows of our reporting units, or material changes in reporting unit carrying values compared with changes in their respective fair values.

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

To a greater degree than most non-technology companies, we depend on the efforts and abilities of certain key members of management and technical personnel to execute on the strategic initiatives of our business. Our future success depends, in part, upon our ability to retain such personnel and to attract and retain other highly qualified personnel, particularly skilled engineers. We compete for these individuals with certain of our competitors, other companies, academic institutions, government entities and other organizations. Competition for such personnel, particularly in the Silicon Valley, is intense and we may not be successful in hiring or retaining new or existing qualified personnel. Furthermore, changes in immigration and work permit laws and regulations or the administration or enforcement of such laws or regulations can also impair our ability to attract and retain qualified personnel. Equity awards are critical to our ability to hire and retain such key personnel, and any reduction in the price of our common stock (and accordingly the value of such equity awards) may reduce the willingness of key personnel to remain employed by the Company. In addition, we may also need to significantly increase our cash-based compensation to retain such personnel.

Our business may also be impacted if we lose members of our senior management team. Any disruption in management continuity could impact our results of operations and stock price and may make recruiting for future management positions more difficult. In addition, changes in key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. The loss of any of our key officers or other employees, or our inability to attract, integrate and retain qualified employees, could require us to dedicate significant financial and other resources to such personnel matters, disrupt our operations and seriously harm our operations and business.

If we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs in the future, we could be at a competitive disadvantage in the marketplace for qualified personnel.

Our compensation program, which includes cash and share-based compensation award components, has been instrumental in attracting, hiring, motivating, and retaining qualified personnel. Competition for qualified personnel in our industry is extremely intense, particularly for engineering

and other technical personnel. Our success depends on our continued ability to attract, hire, motivate, and retain qualified personnel and our share-based compensation award programs provide us with a competitive compensatory tool for this purpose. The continued use of our share-based compensation program is necessary for us to compete for engineering and other technical personnel and professional talent. In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs, we could be at a competitive disadvantage in the marketplace for qualified personnel.

There can be no assurance we will continue to declare dividends.

Our Board of Directors previously adopted a policy pursuant to which the Company would pay quarterly cash dividends on our common stock. The declaration and payment of any dividend or distribution is subject to the approval of our Board and our dividend may be discontinued or reduced at any time. There can be no assurance that we will declare dividends or distributions in the future in any particular amounts, or at all. Future dividends or distributions, if any, and their timing and amount, may be affected by, among other factors, management's views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; our cash position and overall financial condition; debt related payments and commitments, including restrictive covenants which may limit our ability to pay a dividend or distribution; changes in tax or corporate laws; our ability to repatriate cash into the United States; stock repurchase programs; the need to invest in research and development or other parts of our business operations; and changes to our business model. Accordingly, our dividend or other distribution payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends or other distributions in any particular amounts or at all. A reduction in our dividend payments or a change in the tax treatment of future dividends could have a negative effect on our stock price.

We may have fluctuations in the amount and frequency of our stock repurchases and there can be no assurance that we will continue to repurchase shares of our stock.

In October 2015, our Board of Directors approved a new share repurchase plan pursuant to which we are authorized to repurchase our common stock in an aggregate amount not to exceed $450 million. Although our Board of Directors has approved a share repurchase program, the share repurchase program does not obligate us to repurchase any specific dollar amount or number of shares. In addition, there can be no assurance that we will continue to repurchase shares of our stock in any particular amounts, or at all. The stock repurchase plan could affect the price of our stock and increase volatility and may be suspended or terminated at any time without prior notice and in compliance with legal and regulatory requirements, which may result in a decrease in the trading price of our common stock. Through the end the 2016 fiscal year, we repurchased a total of 29.5 million shares for a total cost of $239.2 million under the October 2015 stock repurchase plan. A substantial majority of these purchases were made prior to the start of our second quarter of 2016. In fiscal 2017, we did not repurchase any shares in the open market under the stock repurchase plan. In fiscal 2018, we repurchased 2.4 million shares for a total cost of $35 million including the Yield Enhancement Program ("YEP"). YEPs are short-term structured agreements, typically with maturities of 90 days or less, correlated to our stock price that can settle either in return of cash or delivery of our shares.

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

From time to time we have shared our views in press releases or SEC filings, on public conference calls and in other contexts about current business conditions and our expectations as to our future results of operations. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process, especially in uncertain economic times. Given the

complexity and volatility of our business, our analysis and forecasts have in the past and will likely in the future, prove to be incorrect. We offer no assurance that such predictions or analysis will ultimately be accurate, and investors should treat any such predictions or analysis with appropriate caution. If any analysis or forecast that we make ultimately proves to be inaccurate, our stock price may be adversely affected.

Industry consolidation may lead to increased competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Industry consolidation may result in stronger companies that are better able to compete with us. This could have a material adverse effect on our business, operating results, and financial condition.

We may be unable to adequately protect our intellectual property rights.

The protection of our intellectual property rights is essential to keeping others from copying the innovations that are critical to our existing and future products. It may be possible for an unauthorized third party to reverse-engineer or decompile our software products. The process of seeking patent protection can be long and expensive and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be respected by third parties. Furthermore, our flexible manufacturing initiative requires us to enter into technology transfer agreements with external partners, providing third-party access to our intellectual property and resulting in additional risk. In some cases, these technology transfer and/or license agreements are with foreign companies and subject our intellectual property to regulation in foreign countries which may afford less protection and/or result in increased costs to enforce such agreements or intellectual property rights. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future. Consequently, we have in the past become involved and we may continue to be involved in litigation, in the United States or abroad, to enforce our patents or other intellectual property rights, to protect our trade secrets and know-how, to determine the validity or scope of the proprietary rights of others or to defend against claims of invalidity. We may also from time to time continue to be involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. Patent litigation, if necessary or when instituted against us, could result in substantial costs and divert our management's attention and resources.

Moreover, a key element of our strategy is to enter new markets with our products. If we are successful in entering these new markets, we will likely be subject to additional risks of potential infringement claims against us as our technologies are deployed in new applications and face new competitors. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, particularly in certain international markets, making misappropriation of our intellectual property more likely. In August 2016, we entered into a series of agreements to divest a large number of older, legacy patents and we may in the future divest patents from time to time. The divestiture of patents may limit our ability to make certain legal claims, and to be successful, in future patent litigation.

We also rely on trade secret protection for our technology, in part through confidentiality and other written agreements with our employees, consultants and third parties. Through these and other written agreements, we attempt to control access to and distribution of our intellectual property documentation and other proprietary technology information. Despite our efforts to protect our proprietary rights, former employees, consultants or third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a product with the same functionality as our technology. Policing unauthorized use of our intellectual property rights is difficult, and nearly impossible on a worldwide

basis. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriation of our technology or intellectual property rights, particularly in foreign countries where we do business or where our technology is sold or used, where the laws may not protect proprietary rights as fully as do the laws of the United States or where the enforcement of such laws is not common or effective.

We become involved in intellectual property litigation from time to time, which can be expensive and divert management attention and resources away from our business, and in which an adverse judgment or settlement may require us to pay substantial damages or prohibit us from using essential technologies.

Intellectual property litigation and threats of litigation are very common in our industry. Other companies or entities have commenced, and may again commence, actions seeking to establish the invalidity of our patents. While we intend to defend these actions vigorously, there is no guarantee of success, and such effort takes significant financial and time resources from the Company. In the event that one or more of our patents are challenged, a court or the United States Patent and Trademark Office (USPTO) may invalidate the patent(s) or determine that the patent(s) is not enforceable, which could harm our competitive position. If our patents are invalidated, or if the scope of the claims in any of these patents is limited by a court or USPTO decision, we could be prevented from pursuing certain litigation matters or licensing the invalidated or limited portion of such patents. Such adverse decisions could negatively impact our future, expected revenue.

Intellectual property litigation is frequently expensive to both the winning party and the losing party and could take up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could find that our intellectual property rights are invalid, enabling our competitors to use our technology, or require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. In addition, in August 2016, we entered into a series of agreements to divest a large number of older, legacy patents and we may in the future divest patents from time to time. The divestiture of patents may limit our ability to make certain legal claims, and to be successful, in future patent litigation. For these and other reasons, intellectual property litigation could seriously harm our business, financial condition and results of operations. Also, although in certain instances we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may be unable to obtain such a license on reasonable terms or at all. Even though we may have meritorious defenses and claims and defend and pursue such claims vigorously, all litigation is subject to inherent uncertainties and may negatively impact our business.

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

We are a publicly traded company and our stockholders can change on a daily basis. These changes are beyond our control. The U.S. Internal Revenue Code (Section 382) restricts a company's ability to benefit from net operating losses if a "Section 382 Ownership Change" occurs. An ownership change for purposes of U.S. tax law Section 382 may result from ownership changes that increase the aggregate ownership of "5-percent stockholders," by more than 50 percentage points over a testing period, generally three years ("Section 382 Ownership Change"). We experienced a Section 382 Ownership Change upon our merger with Spansion Inc. ("Spansion") in March 2015. The resulting limitations accompanying the ownership change are reflected in our deferred tax assets with no permanent limitation in our ability to utilize our tax attributes.

Our business could be negatively affected as a result of actions by activist stockholders.

The actions of activist stockholders, including any related legal proceedings, could adversely affect our business. Specifically:

- responding to common actions of an activist stockholder, such as public proposals and requests for special meetings, nominations of candidates for election to our board of directors, requests that certain executive officers or directors depart the Company, requests to make changes to internal business operations, requests to pursue a strategic combination or other transaction or other special requests, could disrupt our operations, be costly and time-consuming or divert the attention of our management and employees;
- perceived uncertainties as to our future direction in relation to the actions of an activist stockholder, including any perceived changes at the board or management level, may result in the loss of potential business opportunities or the perception that we are unstable and need to make changes, which may be exploited by our competitors and make it more difficult to attract and retain key personnel as well as consumers and service providers;
- actions of an activist stockholder, especially any legal proceedings, may divert management time and attention away from execution on the Company's business operations and cause the Company to incur significant costs, including expenses related to legal, public relations, investment banking, and/or proxy advisory services—these expenses could have a material adverse impact on our financial results;
- the election to our Board of Directors of director candidates who are not supported by the Company, may create unnecessary conflict and instability on our board of directors; and
- actions of an activist stockholder may cause fluctuations in our stock price based on speculative market perceptions, unflattering media coverage, or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Our settlement agreement with T.J. Rodgers, which resolved the 2017 proxy contest, expires on the date of our 2019 annual meeting of stockholders (or, if earlier, May 31, 2019).

Geopolitical uncertainty, and changes to international trade agreements, tariffs, import and excise duties, taxes, or other governmental rules and regulations could adversely affect our business and results of operations.

A majority of our revenue is generated from customers located outside the U.S. and a substantial portion of our assets and employees are located outside the U.S. Risks associated with international operations, any of which could have a material adverse effect on our business, liquidity, financial condition and/or results of operations, include:

- political instability, and the possibility of a deteriorating relationship between the nations in which we do business and the United States;
- the imposition of new or modified international trade restrictions, tariffs, import and excise duties or other taxes;
- import and export requirements, including restrictions on sales to certain end customers;
- restrictions on foreign ownership and investments, including potential intervention by the Committee on Foreign Investment in the United States (CFIUS) or by other applicable administrative review boards to block strategic transactions that might otherwise be in our shareholders' interests;
- restrictions on repatriation of cash earned in countries outside the U.S.;

- changes in local political, economic, social and labor conditions;
- a less developed and less certain legal and regulatory environment in some countries, which, among other things, can create uncertainty regarding contract enforcement, intellectual property rights and liability issues;
- inadequate levels of compliance with applicable anti-bribery laws, including the Foreign Corrupt Practices Act, the UK Bribery Act of 2010; and
- possible disruption of business relationships if any of the above risks disrupt our suppliers or customers' operations, or lead any of our suppliers or customers to relocate some portion of their international operations (for example, we might face a risk of delayed or lost sales if a customer were to move its manufacturing operations out of China due to concerns over tariffs or inadequate respect for intellectual property rights).

The U.S. federal government or other governmental bodies may propose changes to international trade agreements, tariffs, taxes and other government rules and regulations. Any changes to the international trading system, or the emergence of an international trade dispute, could significantly impact our business and have a negative impact on our revenues. In addition, the U.S. and other countries in which we operate impose import and excise duties, tariffs and other taxes on our products in varying amounts. Any significant increases in import and excise duties or other taxes on our products could have a material adverse effect on our business, liquidity, financial condition and/or results of operations.

For example, our sales were impacted in the second quarter of 2018 when the U.S. Department of Commerce banned U.S. companies from providing exports to ZTE, a Chinese telecoms equipment manufacturer (which ban was subsequently lifted in the third quarter of 2018) in an export controls case. Similarly, general trade tensions between the U.S. and China escalated in 2018, with rounds of U.S. tariffs on Chinese goods taking effect in July, August, and September 2018 (some of which prompted retaliatory Chinese tariffs on U.S. goods). An additional U.S. tariff rate increase was scheduled to take effect on January 1, 2019 but was delayed in December 2018 and again in February 2019 as the two nations attempt to reach a trade agreement. Further rounds of tariffs have also been threatened by U.S. and Chinese leaders.

The current U.S. tariffs on China-origin goods and the related geopolitical uncertainty between the U.S. and China have caused, and may continue to cause, decreased demand for our products from distributors and other customers, which could have a material adverse effect on our business, liquidity, financial condition, and/or results of operations.

- The August and September 2018 rounds of U.S. tariffs apply to some of our products that are assembled in China and imported to the U.S. Specifically, the August round imposed a 25% tariff on integrated circuits and the September round imposed a 10% tariff on modules, which is scheduled to rise to 25% at the end of the delay period mentioned above, absent a resolution of the trade dispute. Products subject to the tariffs generated approximately 1.5% of our revenue for the fourth quarter of 2018. These current and any future tariffs imposed by the U.S. on products assembled in China that we sell in the U.S. could negatively impact our U.S. sales.
- The August round of U.S. tariffs also imposed a 25% duty on imports of China-origin integrated circuit wafers, which are among the components we include in our products. Although we import some such wafers for testing in the U.S., we then export them overseas for final assembly and/or distribution to customers. Accordingly, we have been able to avoid the wafer tariff to date by use of the "temporary import bond" (or TIB) process established by U.S. Customs, which requires that we separately track each wafer to ensure that, within one year of import, it is either re-exported or destroyed. If we fail to so track any such wafer, we would owe a double duty on the incoming shipment of which that wafer was a part. In addition, upon any such failure, U.S.

Customs could (and upon repeated extreme failures U.S. Customs likely would) disallow further use of the TIB process, which would materially increase our production costs. In that case, we might be unable to secure alternate sources for wafers on a timely basis, or at all. In the semiconductor industry, supply chain changes are complicated, time-consuming, and costly, and may disrupt longstanding business relationships that are otherwise advantageous.

- Apart from wafers, the current U.S. tariffs cover only a small fraction of the materials we utilize for manufacturing of our products. We do not anticipate any material impact on our supply chain costs from the U.S. tariffs imposed to date. If the U.S. were to impose tariffs on a broader range of materials that we or our suppliers source from China for use in U.S. manufacturing (and if we were unable to avoid the tariffs by use of the TIB process or other means), such tariffs could cause our costs to increase, which could narrow the profits we earn from sales of products requiring such materials or force us to raise prices, negatively impacting our sales. As mentioned above, the process of changing suppliers in order to mitigate any such tariff costs could be complicated, time-consuming, and costly.
- We believe the U.S. tariffs may cause customers to delay orders as they evaluate where to take delivery of our products in connection with their efforts to mitigate their own tariff exposure. Such delays create forecasting difficulties for us and increase the risk that orders might be canceled or might never be placed.
- Some of our customers embed our products in finished goods they manufacture in China for import to the U.S. Current or future tariffs imposed by the U.S. on such goods could negatively impact our customers' sales, thereby causing an indirect negative impact on our own sales. Any reduction in our customers' sales, and/or any apprehension among distributors and customers of a possible reduction in such sales, would likely cause an indirect negative impact on our own sales. Even in the absence of further tariffs, the related uncertainty and the market's fear of an escalating trade war might cause our distributors and customers to place fewer orders for our products, which could have a material adverse effect on our business, liquidity, financial condition, and/or results of operations.
- To date, China's retaliatory tariffs have generally focused on other industries. However, if China were to impose tariffs on the products we sell in China, or on the finished goods our customers sell in China, such tariffs (and/or the market's related uncertainty and apprehension) could directly or indirectly reduce demand for our products, negatively impacting our sales.

We could also be affected by nationalization of our international operations, unstable governments, unfamiliar or biased legal systems or intergovernmental disputes. Any determination that our operations or activities did not comply with applicable U.S. or foreign laws or regulations could result in the imposition of fines and penalties, interruptions of business, terminations of necessary licenses and permits, and other legal and equitable sanctions.

These international economic and political uncertainties and regulatory changes could have a material adverse effect on our, or our suppliers' and distributors', business, liquidity, financial condition and/or results of operations.

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

International revenues historically accounted for a significant portion of our total revenues. Our manufacturing, assembly, and test operations and certain finance operations located outside of the United States, as well as our international sales offices and design centers, face risks frequently associated with foreign operations including but not limited to:

- currency exchange fluctuations;

- the devaluation of local currencies;
- political instability, and the possibility of a deteriorating relationship between the nations in which we operate and the United States;
- labor issues, including collective bargaining agreements;
- the impact of natural disasters on local infrastructures and economies;
- changes in local economic conditions;
- import and export controls;
- potential shortage of power supply;
- potential violations by our international employees or third party agents of international or U.S. laws relevant to foreign operations (such as FCPA, UK Bribery Act of 2010); and
- changes in tax laws, tariffs and freight rates.

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

We are subject to many different environmental, data privacy, health and safety laws, regulations and directives, and compliance with them may be costly.

We are subject to many different international, federal, state and local governmental laws and regulations related to, among other things, the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process, conflict mineral and data privacy legislation, as well as the health and safety regulations related to our employees. Compliance with these regulations can be costly. There can be no assurance that we have been, or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned by regulators. Under certain environmental laws, we could be held responsible, without regard to fault, for all of the costs relating to any contamination at our or our predecessors' past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to such substances or other environmental damage.

Proposed or new legislation and regulations could also significantly affect our business. There currently are a number of proposals pending before federal, state, and foreign legislative and regulatory bodies. In addition, the new European General Data Protection Regulation (GDPR) took effect in May 2018 and applies to many of our products and services that provide service in Europe. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union. It requires, for example, that we implement measures to change our service or limit access to our service for minors under the age of 16 for certain countries in Europe that maintain the minimum age of 16 under the GDPR. We are also required to obtain consent and/or offer new controls to existing and new users in Europe before processing data for certain aspects of our service. The GDPR similarly regulates our processing of personal data of European employees, European customers, European sales leads, and other European business contacts. The GDPR provides significant penalties for non-compliance. Similarly, there are a number of legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for copyright infringement by third parties. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

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

We face increasing complexity in our product design as we adjust to new and future requirements relating to the material composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union, China and California. Other countries, including at the federal and state levels in the United States, are also considering similar laws and regulations. Certain electronic products that we maintain in inventory may be rendered obsolete if they are not in compliance with such laws and regulations, which could negatively impact our ability to generate revenue from those products. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, or in the worst case decreased revenue, and could even require that we redesign or change how we manufacture our products. Such redesigns result in additional costs and possible delayed or lost revenue.

We face risks related to "conflict minerals" reporting.

Our products contain materials that are subject to the SEC's conflict minerals reporting requirements. These requirements require companies to perform ongoing diligence, and to disclose and report whether or not such minerals in their products originate from the Democratic Republic of Congo and adjoining countries. We file such reports annually with the SEC on Form SD. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be adversely affected if disrupted for any reason, including natural disasters such as earthquakes, tsunamis, floods, hurricanes, typhoons, telecommunication or information technology system failures, regulatory or political issues, power or water shortages, fires, extreme weather conditions, medical epidemics or pandemics or other man- made disasters or catastrophic events. While we maintain business interruption insurance for our facilities, the level of coverage might not be sufficient to cover potential losses. Accordingly, the occurrence of any of these business disruptions for us or our third-party manufacturers, partners or customers could result in significant losses, seriously harm our revenue and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults known for seismic activity. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including the Philippines, Thailand, Malaysia, Japan, China and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. However, in the event of a major earthquake or other natural disaster or catastrophic event, our revenue, profitability and financial condition could suffer.

Changes to Board of Directors and senior management may disrupt our operations, our strategic focus or our ability to drive stockholder value.

Our future success depends, in part, upon our ability to retain key members of our senior management team and our Board of Directors (the "Board") and to attract and retain other highly qualified personnel for our Board and senior management positions. Turnover may disrupt our operations, our strategic focus or our ability to drive stockholder value. If we fail to attract new skilled personnel for our Board and senior management positions, our business and growth prospects could be adversely impacted.

Our governing documents provide indemnities to our officers and directors for which we have purchased insurance. If material liabilities were to arise in excess of our insurance coverage, our financial condition and results of operations could be materially impacted.

Our certificate of incorporation, and by-laws require us to indemnify our officers and directors for certain liabilities that may arise in the course of their service to us. If we were required to pay a significant amount on account of these liabilities, or such liabilities were not covered by insurance coverage, our business, financial condition and results of operations could be seriously harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in San Jose, California. The following table summarizes our primary properties as of the end of fiscal 2018:

Location	Square Footage	Primary Use
Owned:		
United States:		
San Jose, California	171,370	Administrative offices, research and development
Austin, Texas	1,294,000	Manufacturing, research and development and administrative offices
Lynnwood, Washington	67,000	Administrative offices, research and development
Asia:		
Cavite, Philippines*	221,000	Manufacturing, research and development
Bangkok, Thailand	253,300	Manufacturing, research and development
Penang, Malaysia	175,900	Manufacturing, research and development and administrative offices

* Co-owned with local investor.

In fiscal 2018, we added 33,613 square feet of leased space for research and development, administrative, sales offices and design centers located in the United States, Asia and Europe. We believe that our current properties are suitable and adequate for our foreseeable needs. We may need to exit facilities as we continue to evaluate our business model and cost structure.

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in *Note 21* of the Notes to Consolidated Financial Statements under Item 8, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

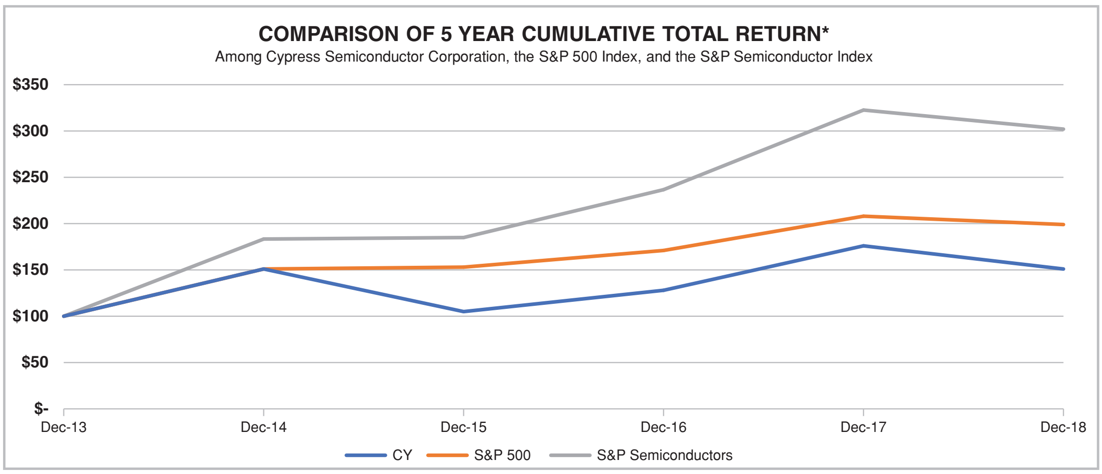
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders of Common Equity, and Performance Graph

Our common stock is listed on the Nasdaq Global Select Market under the trading symbol "CY."

As of February 20, 2019, there were approximately 1,261 registered holders of record of our common stock.

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



* $100 invested on 12/29/13 in stock or index, including reinvestment of dividends. Indexes calculated on month-end basis.

Recent Sales of Unregistered Securities

On March 7, 2018, we entered into a privately negotiated agreement with a certain holder of 2% 2020 Spansion Exchangeable Notes ("Spansion Notes") to induce the extinguishment of $10 million of the remaining $22 million aggregate principal amount of Spansion Notes outstanding (the "Exchange Transaction"). Pursuant to the terms of the Exchange Transaction, we paid to such holder cash in the amount of $10 million representing the par value of the principal amount of Spansion Notes exchanged in the Exchange Transaction and delivered 1.4 million shares (the "Shares") of our Common Stock, par value $0.01 per share, for the conversion value in excess of the principal amount of such Spansion Notes. The Exchange Transaction was conducted as a private placement transaction and the Shares were issued pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock Buyback Programs:

Approval of a $450 Million Stock Buyback Program

On October 20, 2015, our Board of Directors (the "Board") approved a share repurchase plan pursuant to which we are authorized to repurchase our common stock in an aggregate amount not to exceed $450 million. The share repurchase program does not obligate us to repurchase any specific number of shares and may be suspended or terminated at any time without prior notice and in compliance with legal and regulatory requirements.

Yield Enhancement Program ("YEP"):

In fiscal 2018, the Audit Committee approved a yield enhancement strategy intended to improve the yield on our available cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements, typically with maturities of 90 days or less, correlated to our stock price. Under the agreements we have entered into to date, we pay a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of our common stock depending on the closing market price of our common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield currently available for short-term cash investments. If the closing market price is at or below the pre-determined price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity. The shares received upon the maturing of a yield enhancement structure are included in our "shares of common stock held in treasury" on the Consolidated Balance Sheets under Item 8.

There was no activity in our yield enhanced structured agreements during fiscal 2017 and 2016.

The table below sets forth information with respect to repurchases of our common stock made during fiscal 2016 and 2018 under this program, and the activity of our settled yield enhanced structured agreement during fiscal 2018. There were no repurchases of our common stock in fiscal 2017.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Total Dollar Value of Shares That May Yet Be Purchase Under the Plans or Programs
	(In thousands, except per-share amounts)			
Repurchases in fiscal 2016:				
January 4, 2016 - April 3, 2016	23,822	$ 7.66	23,822	$210,968
April 4, 2016 - July 3, 2016	4	$ 9.74	4	$210,931
July 4, 2016 - October 2, 2016	2	$11.46	2	$210,913
October 3, 2016 - January 1, 2017	7	$10.59	7	$210,844
Total repurchases in fiscal 2016	23,835		23,835	$210,844
Repurchases in fiscal 2018:				
April 2, 2018 - July 1, 2018	610	$16.38	610	$200,845
July 2, 2018 - September 30, 2018	598	$16.73	598	$190,846
October 2018	300	$ 12.6	300	$187,065
November 2018	585	$13.52	585	$179,157
Total repurchases in fiscal 2018	2,093		2,093	$179,157
Yield enhancement program in fiscal 2018				
October 1, 2018 - December 30, 2018	250	$13.37	250	$175,815
Total repurchases under this program	31,836		31,836	

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended				
	December 30, 2018	December 31, 2017	January 1, 2017(2)	January 3, 2016(2)	December 28, 2014(2)
	(in thousands, except per-share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$2,483,840	$2,327,771	$1,923,108	$1,607,853	$725,497
Operating income (loss)	164,428	78,093	(608,738)	(323,330)	$ 22,873
Net income (loss)(1)	354,831	(80,783)	(683,877)	(367,563)	$ 16,518
Net (gain) loss attributable to non-controlling interest, net of taxes	$ (239)	$ (132)	$ 643	$ 2,271	$ 1,418
Net income (loss) attributable to Cypress	$ 354,592	$ (80,915)	$ (683,234)	$ (365,292)	$ 17,936
Net income (loss) attributable to Cypress per share—basic	$ 0.99	$ (0.24)	$ (2.14)	$ (1.21)	$ 0.11
Net income (loss) attributable to Cypress per share—diluted	$ 0.95	$ (0.24)	$ (2.14)	$ (1.21)	$ 0.11
Dividends per share:					
Declared	$ 0.44	$ 0.44	$ 0.44	$ 0.44	$ 0.44
Paid	$ 0.44	$ 0.44	$ 0.44	$ 0.44	$ 0.44
Shares used in net income (loss) per-share calculation:					
Basic	359,324	333,451	319,522	302,036	159,031
Diluted	372,178	333,451	319,522	302,036	169,122

	As of				
	December 30, 2018	December 31, 2017	January 1, 2017(4)	January 3, 2016(4)	December 28, 2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 285,720	$ 151,596	$ 121,144	$ 227,561	$118,812
Working capital(1)	$ 396,208	$ 147,854	$ 191,486	$ 326,114	$ 37,479
Total assets(1)	$3,693,215	$3,537,050	$3,871,871	$4,004,261	$743,281
Debt(3)	$ 881,178	$ 983,816	$1,225,131	$ 688,265	$243,250
Stockholders' equity(1)	$2,117,039	$1,817,592	$1,892,752	2,716,423	$201,865

(1) Our Consolidated Financial Statements include the financial results of Spansion beginning March 12, 2015 and the financial results of the wireless IoT business acquired from Broadcom beginning July 5, 2016. The comparability of our results for the years ended December 30, 2018, December 31, 2017, January 1, 2017, and January 3, 2016 to the prior year is significantly impacted by these transactions.

(2) During the fourth quarter of fiscal 2014, we started recognizing revenue for sales to certain distributors at the time of shipment (also referred to as "sell in" basis), as compared to when the

products were resold by the distributor to the end customer, as we determined we could reliably estimate returns and pricing concessions on certain product families and with certain distributors. This change increased fiscal 2014 revenues by $12.3 million, net income by $6.2 million and net income per share, basic and diluted, by $0.04. The change increased 2015 revenue by $40.9 million and decreased net loss by $25.0 million and net income per share, basic and diluted, by $0.08. The change increased 2016 revenue by $59.2 million and decreased net loss by $19.5 million and net income per share, basic and diluted, by $0.06. As at the end of fiscal 2016, 100% of the distribution revenue had been converted to the sell-in basis of revenue recognition.

(3) The debt, net of costs, in fiscal year 2018 primarily included $467.9 million related to our Term Loan B, $135.1 million related to our 2% 2023 Exchangeable Notes, $256.7 million related to our 4.5% 2022 Senior Exchangeable Notes, and $11.4 million related to our 2% 2020 Spansion Exchangeable Notes. The debt, net of costs, in fiscal year 2017 primarily included $90.0 million related to our Senior Secured Revolving Credit Facility, $495.4 million related to our Term Loan B, $131.4 million related to our 2% 2023 Exchangeable Notes, $246.6 million related to our 4.5% 2022 Senior Exchangeable Notes, and $20.4 million related to our 2% 2020 Spansion Exchangeable Notes. The debt, net of costs, in fiscal year 2016 primarily included $332.0 million related to our Senior Secured Revolving Credit Facility, $95.0 million related to our Term Loan A, $444.4 million of Term Loan B, $287.5 million related to our 4.5% 2022 Senior Exchangeable Notes, and $150 million related to our 2% 2020 Spansion Exchangeable Notes. The debt, net of costs, in fiscal year 2015 primarily included $449.0 million related to our Senior Secured Revolving Credit Facility, $97.2 million related to our Term Loan A, $150.0 million related to our 2% 2020 Spansion Exchangeable Notes, $7.2 million related to our capital leases and $3.0 million related to our equipment loans. The debt in fiscal year 2014, net of costs, primarily included $227.0 million related to our Senior Secured Revolving Credit Facility, $10.3 million related to our capital leases, and $5.9 million related to our equipment loans. See *Note 15* for more information on Credit Facility and other debt.

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. The MD&A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that involve risks and uncertainties, which are discussed under Item 1A.

EXECUTIVE SUMMARY

General

Cypress Semiconductor Corporation (together with its consolidated subsidiaries, "Cypress", "the Company", "we" or "us") manufactures and sells advanced embedded system solutions for automotive, industrial, consumer and enterprise end markets. Cypress' microcontroller, analog ICs, wireless and wired connectivity solutions and memory products help engineers design differentiated products and help with speed to market. Cypress is committed to providing customers with quality support and engineering resources.

The Company operates on a 52 or 53-week fiscal year ending on the Sunday nearest to December 31. Fiscal years 2018, 2017 and 2016 each contained 52 weeks.

Mergers, Acquisitions and Divestitures

Joint Venture with SK hynix system ic Inc. ("SKHS")

On October 23, 2018, we entered into an agreement whereby we will transfer our NAND business to a JV with SKHS. The transaction is subject to customary closing conditions and regulatory approvals. We presently expect that the transaction will be completed in the first quarter of fiscal 2019. In addition to our NAND Flash business, we will contribute $2.4 million in cash towards the equity of the JV. We will own 40% of the JV's common stock. The NAND business is presently reported as part of the MPD segment. We recognized $167.3 million, $168.1 million and $180.5 million in revenue from the NAND business for the years ended December 30, 2018, December 31, 2017 and January 1, 2017.

Sale of Cypress Minnesota Incorporated

In fiscal 2017, we completed the sale of our wafer fabrication facility in Minnesota for gross proceeds of $30.5 million.

Investment in Deca Technologies Inc.

On July 29, 2016, Deca Technologies Inc. ("Deca"), our majority owned subsidiary entered into a share purchase agreement, whereby certain third-party investors purchased 41.1% of the shares outstanding at that time for an aggregate consideration of approximately $111.4 million. Concurrently, Deca repurchased certain of its preferred shares from us.

After giving effect to the above transactions, our ownership in Deca was reduced to 52.2% as at July 29, 2016. As a consequence of the substantive rights afforded to third-party new investors in the share purchase agreement, including, among other things, participation on the Board of directors of Deca, approval of operating plans and approval of indebtedness, we determined that we no longer have the power to direct the activities of Deca that most significantly impact Deca's economic performance. However, as we continue to have significant influence over Deca's financial and operating policies,

effective July 29, 2016, our investment in Deca is being accounted for as an equity method investment and financial results of Deca are no longer being consolidated.

Acquisition of Broadcom Corporation's Internet of Things business ("wireless IoT business")

On July 5, 2016, we completed the acquisition of certain assets primarily related to the wireless IoT business of Broadcom pursuant to an Asset Purchase Agreement with Broadcom Corporation, dated April 28, 2016, for a total consideration of $550 million.

Our consolidated financial statements include the financial results of the wireless IoT business acquired from Broadcom beginning July 5, 2016. The comparability of our results for the years ended December 30, 2018 and December 31, 2017 to the prior year is significantly impacted by this transaction.

Business Developments

Business Segments

We continuously evaluate our reportable business segments in accordance with the applicable accounting guidance. Consistent with the year ended December 31, 2017, the Company operates under two reportable business segments, MPD and MCD, for the year ended December 30, 2018.

RESULTS OF OPERATIONS

Revenues

Our total revenues increased by $156.1 million, or 6.7%, to $2,483.8 million for the year ended December 30, 2018 compared to the prior fiscal year. For the year ended December 30, 2018, the increase was primarily driven by strength in automotive and wireless connectivity, microcontrollers, and memory products.

Revenue for the year ended December 31, 2017 benefited from our acquisition of the IoT business of Broadcom, as compared to the prior year which included such sales only for a partial period post acquisition.

The following table summarizes our consolidated revenues by segments:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
MCD	$1,474,442	$1,409,265	$ 994,482
MPD	1,009,398	918,506	928,626
Total revenues	$2,483,840	$2,327,771	$1,923,108

Microcontroller and Connectivity Division:

Revenues recorded by MCD increased in fiscal 2018 by $65.2 million, or 4.6%, compared to fiscal 2017. The increase was primarily driven by growth in our microcontrollers, wired and wireless connectivity and automotive products. MCD revenue during fiscal 2018 benefited from volume increases as a result of new program ramps at certain customers.

Revenues recorded by MCD increased in fiscal 2017 by $414.8 million, or 41.7%, compared to fiscal 2016. We acquired the wireless IoT business acquired from Broadcom on July 5, 2016. Consequently, fiscal 2016 revenue included the results of the wireless IoT business for only a partial

year. Additionally, MCD revenues increased in fiscal 2017 as compared to fiscal 2016, due to increased revenue from our wired and wireless connectivity and microcontrollers products.

Memory Products Division:

Revenues recorded by MPD increased in fiscal 2018 by $90.9 million, or 9.9% compared to fiscal 2017. The increase was primarily due to growth in revenue from the Flash memory products. MPD revenue increased over fiscal 2017 primarily due to a shift in product mix towards high density NOR products, as well as an increase in revenue on NAND products.

Revenues recorded by MPD decreased in fiscal 2017 by $10.1 million, or 1.1% compared to fiscal 2016. The decrease was primarily due to declines in revenue from memory products. MPD revenue decreased over fiscal 2016 due to a decline in revenue from NAND products offset by strength in revenue from NOR products.

Gross Profit & Margin

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Revenues	$2,483,840	$2,327,771	$1,923,108
Less: Cost of revenues	$1,552,385	$1,545,837	$1,464,612
Gross profit	931,455	781,934	458,496
Gross margin (%)	37.5%	33.6%	23.8%

Our gross margin improved from 33.6% in fiscal 2017 to 37.5% in fiscal 2018. The primary drivers of the improvement in gross margin were higher fab utilization, which increased from 74.2% for the year ended December 31, 2017 to 81.2% for the year ended December 30, 2018; a reduction in the cost of certain products; a shift in the product mix towards higher density memory products and a decrease in commoditized products; and ramping of new products at favorable margins.

Additionally, there was a reduction in write-downs of carrying value of inventory for the year ended December 30, 2018 as compared to the prior year. Write-down of inventories for the year ended December 30, 2018 was $22.3 million as compared to $34.5 million for the year ended December 31, 2017. Write-down of inventories unfavorably impacted our gross margin by 0.9% and 1.5% for the year ended December 30, 2018 and for the year ended December 31, 2017, respectively. Sale of inventory that was previously written off or written down aggregated to $19.5 million and $31.6 million in fiscal 2018 and fiscal 2017, respectively, which favorably impacted our gross margin by 0.8% and 1.4%, respectively.

Included in the cost of revenues are restructuring costs of $3.3 million and $0.6 million for fiscal 2018 and fiscal 2017, respectively. The increase in restructuring costs is primarily due to the 2018 Plan (as defined below), which we began implementing in the first quarter of 2018.

Included in cost of revenues is the amortization of intangible assets of $196.0 million and $175.0 million for fiscal 2018 and fiscal 2017, respectively. The increase of the amortization of intangible assets is mainly due to the increase of in-process research and development (“IPR&D”) projects capitalized during the year.

Included in cost of revenues in fiscal 2018 is the impairment of assets held for sale of $10.9 million as a result of entering into a definitive agreement to divest the NAND products business to a joint venture with SKHS in October 2018.

Our gross margin improved from 23.8% in fiscal 2016 to 33.6% in fiscal 2017. The primary drivers of the improvement in gross margin were sales from the acquired wireless IoT business, which were accretive to our gross margin in 2017, higher fab utilization, which increased from 56.0% for the year ended January 1, 2017 to 74.2% for the year ended December 31, 2017, and a reduction in the cost of certain products and ramping of new products at accretive margins. This was partially offset by higher write downs of carrying value of inventory during the year ended December 31, 2017 as compared to the same prior year period. Write-down of inventories for the year ended December 31, 2017 was $34.5 million as compared to $25.3 million for the year ended January 1, 2017. Write-down of inventories unfavorably impacted our gross margin by 1.5% and 1.3% for the year ended December 31, 2017 and for the year ended January 1, 2017, respectively. Sale of inventory that was previously written off or written down aggregated to $31.6 million and $65.7 million in fiscal 2017 and fiscal 2016, respectively, which favorably impacted our gross margin by 1.4% and 3.4%, respectively. Included in the cost of revenues are restructuring costs of $0.5 million and $1.4 million for the fiscal 2017 and fiscal 2016, respectively. During fiscal 2016, we recognized $33.9 million of impairment charges related to two IPR&D projects that were canceled due to certain changes in our long-term product portfolio strategy during fiscal 2016. In addition, we recorded an impairment charge of $37.2 million related to the sale of our wafer manufacturing facility located in Bloomington, Minnesota, as well as a building in Austin, Texas during fiscal 2016, to reflect the estimated fair value, net of cost to sell these assets. During fiscal 2017, we recorded a $1.2 million adjustment as a result of changes in certain estimates related to these assets, resulting in a reduction of operating expense.

Research and Development ("R&D")

Our R&D efforts are focused on the development and design of new semiconductor products and design methodologies, as well as the continued development of advanced software platforms. Our R&D organization works with our manufacturing facilities, suppliers and customers to improve our semiconductor designs and lower our manufacturing costs.

Our R&D groups conduct ongoing efforts to reduce design cycle time and increase first pass yield through structured re-use of intellectual property blocks from a controlled intellectual property library, development of computer-aided design tools and improved design business processes. Design and related software development work primarily occurs at design centers located in the United States, Ukraine, Ireland, Germany, Israel, India, Japan and China.

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
R&D expenses	$363,996	$362,931	$347,131
As a percentage of revenues	14.7%	15.6%	18.1%

R&D expenditures increased by $1.1 million in fiscal 2018 compared to the prior year. The increase was mainly attributable to $5.4 million in increased labor costs mainly due to employee-related compensation expenses, $3.6 million increase in depreciation, and $1.8 million in licensing payments to certain vendors, partially offset by a $4.1 million in lower restructuring costs, $3.8 million decrease in deferred compensation expenses, and a $1.7 million decrease in stock-based compensation expenses.

R&D expenditures increased by $15.8 million in fiscal 2017 compared to fiscal 2016. The increase was mainly attributable to $40.3 million of expenses due to the wireless IoT business acquisition which was primarily comprised of $28.2 million of increase in labor costs due to increased headcount and an increase of $12.1 million in expensed assets. The above increases were partially offset by a $1.4 million decrease in stock-based compensation expense and a $23.1 million decrease in other R&D expenses, mainly due to reduction in labor costs due to Cypress 3.0 restructuring initiatives.

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
SG&A expenses	$403,031	$340,910	$720,103
As a percentage of revenues	16.2%	14.6%	37.4%

SG&A expenses increased by $62.1 million in fiscal 2018 compared to fiscal 2017. The increase was mainly due to an impairment of goodwill attributable to NAND of $65.7 million, a $9.1 million increase in restructuring costs, a $5.1 million increase in stock-based compensation, a $3.8 million increase in higher professional fee, a $3.4 million increase in advertising expenses and a $2.5 million increase in facilities expenses, partially offset by a $14.3 million decrease in shareholder litigation, a $7.9 million decrease in labor expenses, and a $5.0 million decrease in deferred compensation expenses.

SG&A expenses decreased by $379.2 million in fiscal 2017 compared to fiscal 2016. The decrease was mainly due to a goodwill impairment charge of $488.5 million related to our former PSD reporting unit, a $15.4 million decrease in acquisition cost related to the wireless IoT acquisition, a $6.1 million decrease in restructuring cost, a $5.0 million decrease in executive severance costs and a $10.0 million decrease in non-recurring costs, partially offset by a $112.8 million decrease in gain related to Deca Technologies (the gain was recorded in 2016), a $14.3 million increase in shareholder litigation and proxy related expenses, a $8.2 million increase in labor costs, a $5.4 million increase in wireless IoT business operating expenses, and an increase of $3.1 million in stock-based compensation expenses.

Interest expense

Interest expense for fiscal 2018 was $65.3 million and primarily represents interest payments due and amortization of debt discount and costs related to our 2% 2023 Exchangeable Notes, 4.5% 2022 Senior Exchangeable Notes, 2% 2020 Spansion Exchangeable Notes, and interest expense incurred on our Revolving Credit Facility, Term Loan B and other debt. In addition, of the $65.3 million, $5.2 million was related to the refinancing and write-off of debt issuance costs upon the debt amendment for Term Loan B and the extinguishment for the 2% 2020 Spansion Exchangeable Notes.

Interest expense for fiscal 2017 was $80.2 million and primarily represents interest payments due and amortization of debt discount and costs related to our 2% 2023 Exchangeable Notes, 4.5% 2022 Senior Exchangeable Notes, and 2% 2020 Spansion Exchangeable Notes, and interest expense incurred on our Revolving Credit Facility, Term Loan B and other debt. In addition, of the $80.2 million, $7.2 million was related to the debt extinguishment of the 2% 2020 Spansion Exchangeable Notes and Term Loan A.

Interest expense for fiscal 2016 was $55.2 million and represents interest payments due and amortization of debt discount and costs related to our 4.50% Senior Exchangeable Notes and 2% Senior Exchangeable Notes, and interest expense incurred on our revolving line of credit, Term Loan A, Term Loan B and other debt.

Refer to *Note 15* of the Notes to Consolidated Financial Statements under *Item 8* for more information about our credit facility and other debt.

Other Income (expense), Net

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
Interest income	$ —	$ 568	$ 1,836
Changes in fair value of investments under the deferred compensation plan	(2,904)	6,087	2,326
Unrealized (loss) gain on marketable securities	—	—	325
Foreign currency exchange and other (losses) gains, net	(340)	(1,838)	(4,251)
(Loss) gain on sale of investments	351	—	(265)
Other	375	(549)	342
Other (expense) income, net	$(2,518)	$ 4,268	$ 313

Employee Deferred Compensation Plan

We have a deferred compensation plan, which provides certain key employees, including our executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-deferred basis. We do not make contributions to the deferred compensation plan and we do not guarantee returns on the investments. Participant deferrals and investment gains and losses remain as our liabilities and the underlying assets are subject to claims of general creditors. In fiscal 2018, 2017 and 2016, we recognized changes in fair value of the assets under the deferred compensation plan in "Other income (expense), net" of $(2.9) million, $6.1 million, and $2.3 million, respectively. The increase or decrease in the fair value of the investments relates to the increased or decreased performance of the portfolio on a year over year basis. Refer to *Note 19* of the Notes to Consolidated Financial Statements under *Item 8* for more information about our deferred compensation plan.

Share in Net Loss and Impairment of Equity Method Investees

We have been making investments in Enovix Corporation ("Enovix"), a privately held development stage company. Our investment holding comprised 24.8%, 41.2% and 46.6% of Enovix's equity at the end of fiscal 2018, 2017 and 2016, respectively. Since the fourth quarter of 2014 we have been accounting for our investment in Enovix using the equity method of accounting. During the fourth quarter of 2017, Enovix missed achieving certain key planned product development milestones. We considered various factors in determining whether to recognize an impairment charge, including the expectations of the investee's future cash flows and capital needs, the length of time the investee has been in a loss position, the ability to achieve milestones, and the near-term prospect of the investee and its exit strategy. Enovix's estimated enterprise value is sensitive to its ability to achieve these milestones. Consequently, we concluded that our investment in Enovix had suffered an other-than-temporary impairment and we recorded a charge of $51.2 million.

In fiscal 2018, we did not record any share of losses recorded by Enovix. During fiscal 2017 and 2016, we recorded $8.7 million and $9.9 million, respectively, for our share of losses recorded by Enovix.

In the second quarter of fiscal 2016, we changed the basis of accounting for our investment in Deca Technologies Inc. ("Deca") to the equity method of accounting. As at the end of fiscal years 2018 and 2017, our investment comprised 52.5% of Deca's equity. During the fourth quarter of fiscal 2018, the Company determined that its investment in Deca, which is accounted for as an equity method

investment, was other-than temporarily impaired due to to failure to achieve significant product development and testing milestones. We considered various factors in determining whether to recognize an impairment charge, including the expectations of the investee's future cash flows and capital needs, the length of time the investee has been in a loss position, the ability to achieve milestones, and the near-term prospect of the investee and its exit strategy. Deca's estimated enterprise value is sensitive to its ability to achieve these milestones. Consequently, we recognized a charge of $41.5 million in order to write down the carrying amount of the investment to the estimated fair value of $65.1 million as at end of fiscal 2018. This write down was recorded in "Selling, general and administrative expenses" in the Consolidated Statements of Operations.

During fiscal 2018 and 2017, we recorded $15.8 million and $11.8 million, respectively, for our share of losses recorded by Deca.

Income Taxes

We recorded an income tax benefit of $315.6 million in fiscal 2018, and income tax provisions of $11.2 million and $2.6 million in fiscal 2017 and 2016, respectively. The income tax benefit for 2018 was primarily due to a release of our valuation allowance previously maintained against certain deferred tax assets of $343.3 million, as discussed further below. The income tax expenses for fiscal 2017 and 2016 were primarily attributable to income taxes associated with our non-U.S. operations, partially offset by release of previously accrued taxes related to the lapsing of statutes of limitation.

A valuation allowance is established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of the deferred tax assets will not be realized. We regularly assess our valuation allowance against deferred tax assets on a jurisdiction by jurisdiction basis. We consider all available positive and negative evidence, including future reversals of temporary differences, projected future taxable income, tax planning strategies and recent financial results. During the fourth quarter of 2018, the Company emerged from a cumulative loss position over the previous three years. The cumulative three-year pre-tax income is considered positive evidence which is objective and verifiable and thus received significant weighting. The continued pattern of income before tax, recent global restructuring executed in fiscal 2018 and projected future operating income in the U.S. was additional positive evidence. As a result, the Company released $343.3 million of the valuation allowance attributable to certain U.S. deferred tax assets during 2018.

Our effective tax rate varies from the U.S. statutory rate primarily due to a release of valuation allowance and earnings of foreign subsidiaries taxed at different rates. The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We regularly assess our tax positions in light of legislative, bilateral tax treaties, and regulatory and judicial developments in the many countries in which we and our affiliates do business.

LIQUIDITY AND CAPITAL RESOURCES

Our Revolving Credit Facility has a capacity of $540 million. As of December 30, 2018, the Revolving Credit Facility was undrawn and provided a guarantee for one outstanding letter of credit for $1 million.

The following table summarizes our consolidated cash, cash equivalents and short-term investments and working capital:

	As of		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Cash, cash equivalents and short-term investments	$285,720	$151,596	$121,144
Working capital, net	$396,208	$147,854	$191,486

Key Components of Cash Flows

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(in thousands)	
Net cash provided by operating activities	$ 471,700	$ 403,487	$ 217,419
Net cash used in investing activities	$ (49,690)	$ (14,429)	$(613,439)
Net cash provided by (used in) financing activities	$(287,886)	$(357,634)	$ 289,502

Fiscal 2018:

Operating Activities

Net cash provided by operating activities during fiscal 2018 was $471.7 million consisted of (in millions):

Net income	$ 354.8
Non-cash items	
Stock-based compensation expenses	96.0
Depreciation and amortization	283.0
Impairment of assets held for sale	76.6
Loss on sale or retirement of property and equipment, net	7.5
Change in interest rate swaps	2.8
Share in net loss and impairment of equity method investees	57.4
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	19.5
Release of valuation allowance	(343.3)
Loss on extinguishment of debt	5.2
Restructuring and other costs	16.1
Changes in operating asset and liability accounts	(103.9)
	$ 471.7

The decrease in net cash due to changes in operating assets and liabilities during fiscal 2018 of $103.9 million was primarily due to the following:

- an increase in accounts receivables of $23.8 million mainly due to an increase in revenue,
- an increase in inventories of $20.8 million,
- an increase in other current and long-term assets of $5.4 million,
- a decrease in accounts payable and accrued and other liabilities of $36.7 million mainly due to timing of payments and payments related to restructuring activities,
- a decrease in price adjustments and other distributor related reserved of $14.5 million, and
- an increase in assets held for sale related inventories of $13.5 million due to the sale of NAND business.

Investing Activities

In fiscal 2018, we used approximately $49.7 million of cash in our investing activities primarily due to:

- $68.9 million of cash used for property and equipment expenditures relating to purchases of certain laboratory and manufacturing facility equipment, partially offset by:
- $5.8 million of cash received on the sales of property and equipment, and
- $18.5 million of cash received related to our investments in privately held equity interests.

Financing Activities

In fiscal 2018, we used approximately $287.9 million of cash in our financing activities, primarily related to:

- $157.4 million dividend payments,
- net repayments of $90.0 million on the Senior Secured Revolving Credit Facility,
- $35.6 million repayment of Term Loan B.
- $35.0 million for stock repurchase,
- $10.0 million repayment of 2% 2020 Spansion Exchangeable Notes, and
- The above payments were partially offset by $40.7 million due to issuance of common stock.

Fiscal 2017:

Operating Activities

Net cash provided by operating activities during fiscal 2017 was $403.5 million consisted of (in millions):

Net income	(80.8)
Non-cash items	
Stock-based compensation expenses	91.6
Depreciation and amortization	264.9
Gain on divestitures	(1.2)
Gain on sale or retirement of property and equipment, net	(1.2)
Share in net loss and impairment of equity method investees	71.8
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	21.1
Loss on extinguishment of debt	7.2
Restructuring and other costs	9.0
Changes in operating asset and liability accounts	21.1
	403.5

The increase in net cash due to changes in operating assets and liabilities during fiscal 2016 of $21.1 million was primarily due to the following:

- a decrease in accounts payable and accrued and other liabilities of $59.0 million mainly due to timing of payments and payments related to restructuring activities,
- an increase in price adjustments and other distributor related reserves of $19.1 million,

- an increase in inventories of $14.3 million to support increased expected demand for IoT and other MCD products,
- an increase in other current and long-term assets of $9.6 million, primarily due to timing of payments for certain licenses, and
- an increase in accounts receivables of $37.0 million mainly due to an increase in revenue.

Investing Activities

In fiscal 2017, we used approximately $14.4 million of cash in our investing activities primarily due to:

- $54.3 million of cash used for property and equipment expenditures relating to purchases of certain laboratory and manufacturing facility equipment and $9.3 million related to our equity method and cost method investments, partially offset by:
- $35.5 million of cash received on the sale of the wafer manufacturing facility located in Bloomington, Minnesota and a building in Austin, Texas,
- receipt of $10.0 million of previously escrowed consideration from the divestiture of our TrueTouch® mobile touchscreen business, and
- $2.3 million of cash received on the sales of property and equipment.

Financing Activities

In fiscal 2017, we used approximately $357.6 million of cash in financing activities, primarily from:

- $144.7 million in dividend payments,
- net repayments of $242.0 million on the Revolving Credit Facility,
- $128.0 million repayment of 2% 2020 Spansion Exchangeable Notes, and
- $118.7 million repayment of Term Loan A and Term Loan B.
- The above payments were partially offset by $91.3 million of borrowings under Term Loan B and $150.0 million of borrowing under 2% 2023 Exchangeable Notes.

Liquidity and Contractual Obligations

Summary of our debt balances is included below:

	December 30, 2018		
	Principal amount outstanding	Less: Unamortized discount and issuance costs	Net carrying value outstanding
		(in thousands)	
Term Loan B	476,310	8,391	467,919
2% 2020 Spansion Exchangeable Notes	11,990	552	11,438
4.5% 2022 Senior Exchangeable Notes	287,500	30,774	256,726
2% 2023 Exchangeable Notes	150,000	14,943	135,057
Capital Lease Obligation	$ 10,038	$ —	$ 10,038
Total Debt	$935,838	$54,660	$881,178

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Of the total principal amount outstanding, $6.9 million related to Term Loan B and capital lease obligation is classified in current liabilities as of December 30, 2018.

	December 31, 2017		
	Principal amount outstanding	Less: Unamortized discount and issuance costs	Net carrying value outstanding
		(in thousands)	
Senior Secured Revolving Credit Facility	$ 90,000	$ —	$ 90,000
Term Loan B	511,924	16,541	495,383
2% 2020 Spansion Exchangeable Notes	21,990	1,615	20,375
4.5% 2022 Senior Exchangeable Notes	287,500	40,864	246,636
2% 2023 Exchangeable Notes	150,000	18,578	131,422
Total Debt	$1,061,414	$77,598	$983,816

Of the total principal amount outstanding, $27.3 million related to Term Loan B was classified in current liabilities as of December 31, 2017.

On March 12, 2015, we entered into an Amended and Restated Credit and Guaranty Agreement with Morgan Stanley Bank, N.A., as issuing bank, and other lenders (as amended, the "Credit Agreement"). The Credit Agreement establishes a credit facility (the "Credit Facility" or "Senior Secured Credit Facility") that includes a revolving loan facility (the "Revolving Credit Facility") and provides for the possibility of term loans.

The Revolving Credit Facility provides for $540 million of borrowing capacity, of which $450 million was available at December 31, 2017 and $540 million was available at December 31, 2018.

We believe that the liquidity provided by existing cash, cash equivalents and our borrowing arrangements will provide sufficient capital to meet our requirements for at least the next twelve months. However, should economic conditions and/or financial, business and other factors beyond our control adversely affect the estimates of our future cash requirements, we could be required to fund our cash requirements by alternative financing. There can be no assurance that additional financing, if needed, would be available on terms acceptable to us or at all. In addition, we may choose at any time to raise additional capital or debt to strengthen our financial position, facilitate growth, enter into strategic initiatives (including the acquisition of other companies) and provide us with additional flexibility to take advantage of other business opportunities that arise. As of December 30, 2018, we were in compliance with all of the financial covenants under the Senior Secured Credit Facility.

Refer to *Note 15* of the Notes to Consolidated Financial Statements under Item 8 for more information on our debt obligations.

Contractual Obligations

The following table summarizes our contractual obligations as of December 30, 2018:

	Total	2019	2020 and 2021	2022 and 2023	After 2023
			(In thousands)		
Purchase obligations(1)	$ 402,918	$169,033	$181,622	$ 52,263	$ —
Operating lease commitments(2)	62,876	29,315	21,036	8,717	3,808
Capital lease commitments	10,038	1,687	3,397	3,513	1,441
2% 2023 Exchangeable Notes	150,000	—	—	150,000	—
4.5% 2022 Senior Exchangeable Notes	287,500	—	—	287,500	—
2% 2020 Spansion Exchangeable Notes	11,990	—	11,990	—	—
Term Loan B	476,310	5,051	471,259	—	—
Interest and commitment fee due on debt(3)	105,342	38,164	63,026	4,113	39
Asset retirement obligations	$ 5,916	$ 1,614	$ 3,966	$ 336	$ —
Total contractual obligations	$1,512,890	$244,864	$756,296	$506,442	$5,288

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

(2) Operating leases include payments in 2019 relating to Spansion's lease for which the Company has signed a termination agreement, see Note 11.

(3) Interest and commitment fees due on variable debt is based on the effective interest rates as of December 30, 2018.

Capital Resources and Financial Condition

Our long-term strategy is to minimize the amount of cash required for operational purposes and to utilize the remaining amount of our cash investing in interest-bearing and highly liquid cash equivalents and debt securities, repayment of debt, the purchase of our stock through our stock buyback program and payments of regularly scheduled cash dividends. In addition, we may use excess cash to invest in strategic investments and partnerships and pursue acquisitions. Our investment policy defines three main objectives when buying investments: security of principal, liquidity, and maximization of after-tax yield. We invest excess cash in various financial securities subject to certain requirements including security type, duration, concentration limits, and credit rating profile.

As of December 30, 2018, a total cash and cash equivalents position of $285.7 million is available for use in current operations.

As of December 30, 2018, approximately 23.8% of our cash and cash equivalents are held outside of the United States. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies. All offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts, if repatriated may be subject to tax and other transfer restrictions.

In December 2017, we entered into fixed-for-floating interest rate forward swap agreements (expiring July 2021) with two counterparties starting from April 2018, to swap variable interest payments on our debt for fixed interest payments. The aggregate notional amount of these interest rate

swaps was $300 million. The interest rate on the variable debt was fixed in December 2017 and became effective in April 2017.

On March 7, 2018, we entered into a privately negotiated agreement to induce the extinguishment of $10 million of the remaining $22 million of Spansion Notes outstanding. We paid the holders of the Spansion Notes cash for the aggregate principal of $10 million and delivered 1.4 million shares of common stock for the value in excess of the principal amount.

On March 12, 2018, we amended our Credit Agreement. The amendment reduces the applicable margins on the Revolving Credit Facility and Term Loan B. After giving effect to the amendment, the Term Loan B bore interest, at our option, at the base rate plus an applicable margin of 1.25% or the Eurodollar rate plus an applicable margin of 2.25%; and the Revolving Credit Facility bore interest, at our option, at the base rate plus an applicable margin of either 0.75% or 1.00%, depending on our secured leverage ratio, or the Eurodollar rate plus an applicable margin of 1.75% or 2.00%, depending on the Company's secured leverage ratio. The amendment removed the fixed charge coverage ratio financial covenants. In addition, for Term Loan B, the amendment removed the total leverage ratio covenant, changed the required amortization payments to 1% per annum, and waived the excess cash flow mandatory repayment for fiscal 2017.

On September 13, 2018, we again amended our Credit Agreement. The amendment reduces the applicable margin for Term Loan B. After giving effect to the amendment, Term Loan B will bear interest, at our option, at the base rate plus an applicable margin of 1.00% or the Eurodollar rate plus an applicable margin of 2.00%. In addition, for Term Loan B, the amendment waived the excess cash flow mandatory repayment for fiscal 2018. As part of the transaction we repaid $25.0 million of outstanding Term Loan B principal.

In October 2018, we entered into fixed-for-floating interest rate forward swap agreements starting in July 2021 with two counterparties to swap variable interest payments on expected future debt for fixed interest payments; these agreements will expire in December 2024. The aggregate notional amount of these interest rate swaps is $300 million.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included in this Annual Report on Form 10-K and the data used to prepare them. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and we are required to make estimates, judgments and assumptions in the course of such preparation. *Note 1* of the Notes to Consolidated Financial Statements under Item 8 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, we re-evaluate our judgments and estimates including those related to revenue recognition, allowances for doubtful accounts receivable, inventory valuation, valuation of long-lived assets, goodwill and financial

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

Revenue Recognition:

On January 1, 2018, the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This standard update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted using the modified retrospective method applied to all contracts that were not completed contracts at the date of initial application (i.e., January 1, 2018). Results for reporting periods after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Sales of products with alternative use account for the majority of the Company's revenue and are recognized at a point in time.

Sales to certain distributors are made under arrangements that provide the distributors with price adjustments, price protection, stock rotation and other allowances under certain circumstances. These adjustments and allowances are accounted for as variable consideration. The Company estimates these amounts based on the expected amount to be provided to customers and reduce revenue recognized. The Company believes that there will not be significant changes to its estimates of variable consideration.

If the arrangement includes variable contingent consideration, the Company recognizes revenue over time if management can reasonably measure its progress or is capable of providing reliable information as required to apply an appropriate method of measuring progress.

Business Combinations:

We apply the provisions of Accounting Standards Codification 805, Business Combinations ("ASC 805"), in the accounting for acquisitions. It requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Operations. Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from our management of the acquired companies and are inherently uncertain. Critical estimates in valuing

certain of the intangible assets we have acquired include but are not limited to: future expected cash flows from product sales, customer contracts and acquired technologies, expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Valuation of Inventories:

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

Valuation of Long-Lived Assets:

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

We evaluate our long-lived assets, including property, plant and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis. If there is a significant adverse change in our business in the future, we may be required to record impairment charges on our long-lived assets.

Valuation of Goodwill:

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We assess our goodwill for impairment on an annual basis. Additionally, if certain events or circumstances indicate that an impairment loss may have been incurred, we will also perform an impairment assessment on an interim basis. In accordance with ASU 2011-08, Testing Goodwill for Impairment, qualitative factors can be assessed to determine whether it is necessary to perform the current two-step test for goodwill impairment. If we believe, as a result of our qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

Investments in equity interests

Investments in the stock of entities in which we exercise significant influence but do not own a majority equity interest or otherwise control are accounted for using the equity method and are

included as equity method investments in our consolidated balance sheets. We record our share of the results of those companies within share in net loss and impairment of equity method investees in our consolidated statements of operations. Investments in privately held equity interests in which we do not exercise significant influence are accounted for using the cost method of accounting and are included in other long-term assets in our consolidated balance sheets.

We review our investments for other-than-temporary impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as current economic and market conditions, the operating performance of the entities including current earnings trends and forecasted cash flows, and other company and industry specific information.

Cash Flow Hedges:

We recognize derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in the intrinsic value of these cash flow hedges in accumulated other comprehensive loss on the Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to the appropriate revenue or expense line of the Consolidated Statements of Operations. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive loss to other income (expense), net in our Consolidated Statements of Operations at that time.

We enter into cash flow hedges to protect non-functional currency revenues, inventory purchases and certain other operational expenses against variability in cash flows due to foreign currency fluctuations. Our foreign currency forward contracts that were designated as cash flow hedges have maturities between three and thirteen months. We evaluate hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and record any ineffective portion of the hedge in other income (expense), net in the Consolidated Statements of Operations.

We enter into interest rate swaps to manage the variability in cash flow due to interest rate fluctuations. We evaluate hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and record any ineffective portion of the hedge in other income (expense), net in our Consolidated Statements of Operations. Changes in the fair value of interest rate swaps that have been designated as hedging instruments are recognized in accumulated other comprehensive income (loss).

Refer to *Note 12* of the Notes to Consolidated Financial Statements under Item 8 for further details on cash flow and balance sheet hedges.

Share-Based Compensation:

Under the fair value recognition provisions of the guidance, we recognize share-based compensation based on the grant date fair value of the award and recognize share-based compensation over the service period, which is usually the vesting period. Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of highly subjective assumptions, including measurement of the level of achievement of performance milestones, the expected life of the share-based payment awards and stock price volatility. The assumptions used in

calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Through fiscal 2016, we estimated the expected forfeiture rate and only recognized the expense for those shares expected to vest. Beginning fiscal 2017, with the adoption of ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," we elected to recognize forfeitures as they occurred and adopted these changes using a modified retrospective approach, with a cumulative adjustment recorded to opening accumulative deficit. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

Employee Benefit Plans:

In connection with the merger with Spansion, we assumed the Spansion Innovates Group Cash Balance Plan (a defined benefit pension plan) in Japan. A defined benefit pension plan is accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the Japanese corporate bonds yield curve as of the end of the most recently completed fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long-term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO, being the corridor amount. If the amount of a net gain or loss does not exceed the corridor amount, it will be recorded to other comprehensive income (loss). See *Note 19* of the Notes to Consolidated Financial Statements for further details of the pension plans.

Accounting for Income Taxes:

A valuation allowance is established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of the deferred tax assets will not be realized. We regularly assess our valuation allowance against deferred tax assets on a jurisdiction by jurisdiction basis. We consider all available positive and negative evidence, including future reversals of temporary differences, projected future taxable income, tax planning strategies and recent financial results. During the fourth quarter of 2018, the Company emerged from a cumulative loss position over the previous three years. The cumulative three-year pre-tax income is considered positive evidence which is objective and verifiable and thus received significant weighting. The continued pattern of income before tax, recent global restructuring executed in fiscal 2018 and projected future operating income in the U.S. was additional positive evidence. As a result, the Company released $343.3 million of the valuation allowance attributable to certain U.S. deferred tax assets during 2018.

Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" in *Note 1* of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

Our investment portfolio consists of a variety of financial instruments that expose us to interest rate risk, including, but not limited to, money market funds, and certificates of deposit. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate increase in interest rates would have a material effect on the fair market value of our portfolio.

Our debt obligations consist of a variety of financial instruments that expose us to interest rate risk, including, but not limited to our revolving credit facility, term loans and exchangeable notes. Interest on the exchangeable notes is fixed and interest on our term loans is at variable rates. The interest rate on the term loans is tied to short-term interest rate benchmarks including the prime rate and the London inter-bank offered rate, or LIBOR.

In December 2017, we entered into fixed-for-floating interest rate forward swap agreements with two counterparties, starting from April 2018, to swap variable interest payments on our debt for fixed interest payments. These agreements will expire in July 2021. The objective of the swap was to effectively fix the interest rate at current levels without having to refinance the outstanding term loan, thereby avoiding the incurrence of transaction costs. Under these arrangements, the interest rate on the variable debt became fixed in April 2018. On January 3, 2018, we evaluated the hedge effectiveness of the interest rate swaps and have designated these swaps as hedging instruments. Upon designation as hedge instruments, future changes in fair value of these swaps will be recognized in accumulated other comprehensive income (loss). As of December 30, 2018, these swaps were designated as hedging instruments. As of December 30, 2018, the aggregate notional amount of these interest rate swaps was $300 million.

In October 2018, the Company entered into fixed-for-floating interest rate forward swap agreements starting in July 2021 with two counterparties to swap variable interest payments on expected future debt for fixed interest payments; these agreements will expire in December 2024. The objective of the swaps was to effectively fix the future interest rate at the level currently available to avoid the uncertainty in financing cost for a portion of debt due to future interest rate fluctuations. The aggregate notional amount of these interest rate swaps was $300 million. The Company has evaluated the hedge effectiveness of the interest rate swaps and has designated these swaps as cash flow hedges of debt with future changes in fair value of these swaps recognized in accumulated other comprehensive income (loss).

A one hundred basis point change in the contractual interest rates would change our interest expense for the Revolving Credit Facility and Term Loan B by approximately $1.8 million annually.

Our long-term operating results and cash flows may be materially affected to a significant degree by a sudden change in market interest rates.

Foreign Currency Exchange Risk

We operate and sell products in various global markets and purchase capital equipment using foreign currencies but our transactions are predominantly denominated in U.S. dollars. We are exposed to certain risks associated with changes in foreign currency exchange rates in Japanese yen and other foreign currencies.

Example of our foreign currency transactions including:

- sales of our products to Japanese distributors are denominated in U.S. dollars, Japanese yen and Euros;

- some of our manufacturing costs are denominated in Japanese yen, and other foreign currencies such as the Thai Baht, Philippine Peso and Malaysian Ringgit; and
- some fixed asset purchases and sales are denominated in other foreign currencies.

Consequently, movements in exchange rates could cause our revenues and our expenses to fluctuate, affecting our profitability and cash flows. We use foreign currency forward contracts to reduce our foreign exchange exposure on our foreign currency denominated assets and liabilities. We hedge a percentage of our forecasted revenue and expenses denominated in Japanese yen with foreign currency forward contracts. The objective of these contracts is to mitigate impact of foreign currency exchange rate movements to our operating results on a short-term basis. We do not use these contracts for speculative or trading purposes.

We analyzed our foreign currency exposure, including our hedging strategies, to identify assets and liabilities denominated in other currencies. For those assets and liabilities, we evaluated the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar. We have determined that there would be an immaterial effect on our results of operations from such a shift. Please see *Note 12* of the Notes to Consolidated Financial Statements under *Item 8* for details on the contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CYPRESS SEMICONDUCTOR CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 30, 2018	December 31, 2017
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 285,720	$ 151,596
Accounts receivable, net	324,274	295,991
Inventories	292,093	272,127
Assets held for sale	13,510	—
Other current assets	101,163	103,637
Total current assets	1,016,760	823,351
Property, plant and equipment, net	282,986	289,554
Goodwill	1,373,750	1,439,472
Intangible assets, net	490,590	715,120
Equity method investments	65,145	122,514
Deferred tax assets	339,679	4,293
Other long-term assets	124,305	142,746
Total assets	3,693,215	3,537,050
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	210,715	213,101
Accrued compensation and employee benefits	61,994	79,275
Price adjustments and other distributor related reserves	163,088	173,592
Dividends payable	39,748	38,741
Current portion of long-term debt	6,943	27,303
Other current liabilities	138,064	143,485
Total current liabilities	620,552	675,497
Income taxes payable	53,469	52,006
Credit facility and long-term debt	874,235	956,513
Other long-term liabilities	27,920	35,442
Total liabilities	1,576,176	1,719,458
Commitments and contingencies (Note 21)	—	—
Stockholder's Equity:		
Preferred stock, $.01 par value, 5,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 650,000 and 650,000 shares authorized; 537,327 and 525,719 shares issued; 361,452 and 352,220 shares outstanding at December 30, 2018 and December 31, 2017, respectively	5,373	4,936
Additional paid-in-capital	5,636,099	5,659,612
Accumulated other comprehensive income (loss)	1,829	(1,362)
Accumulated deficit	(1,157,115)	(1,511,706)
Stockholders' equity before treasury stock	4,486,186	4,151,480
Less: shares of common stock held in treasury, at cost; 175,875 and 173,499 shares at December 30, 2018 and December 31, 2017, respectively	(2,370,452)	(2,334,944)
Total Cypress stockholders' equity	2,115,734	1,816,536
Non-controlling interest	1,305	1,056
Total equity	2,117,039	1,817,592
Total liabilities and equity	$ 3,693,215	$ 3,537,050

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands, except per-share amounts)		
Revenues	$2,483,840	$2,327,771	$1,923,108
Costs and expenses:			
Cost of revenues	1,552,385	1,545,837	1,464,612
Research and development	363,996	362,931	347,131
Selling, general and administrative	403,031	340,910	720,103
Total costs and expenses	2,319,412	2,249,678	2,531,846
Operating income (loss)	164,428	78,093	(608,738)
Interest expense	(65,327)	(80,215)	(55,192)
Other (expense) income, net	(2,518)	4,268	313
Income (loss) before income taxes and non-controlling interest	96,583	2,146	(663,617)
Income tax benefit (provision)	315,618	(11,157)	(2,616)
Share in net loss and impairment of equity method investees	(57,370)	(71,772)	(17,644)
Net income (loss)	354,831	(80,783)	(683,877)
Net (gain) loss attributable to non-controlling interest, net of taxes	(239)	(132)	643
Net income (loss) attributable to Cypress	$ 354,592	$ (80,915)	$ (683,234)
Net income (loss) per share attributable to Cypress:			
Basic	$ 0.99	$ (0.24)	$ (2.14)
Diluted	$ 0.95	$ (0.24)	$ (2.14)
Shares used in net income (loss) per share calculation:			
Basic	359,324	333,451	319,522
Diluted	372,178	333,451	319,522

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

CYPRESS SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Twelve Months Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Net income (loss)	354,831	(80,783)	(683,877)
Other comprehensive income (loss):			
Net unrecognized gain on defined benefit plan	3,456	324	(1,214)
Net unrealized gain (loss) on cash flow hedges:			
Net unrealized gain (loss) arising during the period	(644)	511	(5,186)
Net (gain) loss reclassified into earnings for revenue hedges	(37)	(4,634)	13,477
Net (gain) loss reclassified into earnings for expense hedges	(335)	10,586	(15,661)
Net gain reclassified into earnings for interest rate hedges	(162)	—	—
Provision for income tax	913	662	—
Net unrealized gain (loss) on cash flow hedges	(265)	7,125	(7,370)
Other comprehensive income (loss)	3,191	7,449	(8,584)
Comprehensive income (loss)	358,022	(73,334)	(692,461)
Comprehensive income (loss) attributable to non-controlling interest	(239)	(132)	643
Comprehensive income (loss) attributable to Cypress	$357,783	$(73,466)	$(691,818)

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Non-controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
	(in thousands, except share amounts)								
Balances at January 3, 2016	**481,912**	**$4,637**	**$5,613,574**	**$ (227)**	**$ (745,205)**	**149,636**	**$(2,148,193)**	**$(8,163)**	**$2,716,423**
Net loss attributable to Cypress	—	—	—	—	(683,234)	—	—	—	(683,234)
Net unrealized loss on cash flow hedges	—	—	—	(7,344)	(2)		—	—	(7,346)
Unrealized loss on defined benefit pension plan	—	—	—	(1,240)	—	—	—	—	(1,240)
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	(94)	—	(94)
Issuance of common shares under employee stock plans, net	15,143	100	48,166	—	—	—	—	—	48,266
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	887	(11,320)	—	(11,320)
Repurchase of common shares	—	—	—	—	—	22,949	(175,694)	—	(175,694)
Stock-based compensation	—	—	98,781	—	—	—	—	—	98,781
Issuance of 4.5% 2022 Senior Exchangeable Notes	—	—	47,686	—	—	—	—	—	47,686
Purchase of capped calls related to 4.5% 2022 Senior Exchangeable Notes	—	—	(8,165)	—	—	—	—	—	(8,165)
Dividend	—	—	(140,398)	—	—	—	—	—	(140,398)
Deconsolidation of Deca	—	—	—	—	—	—	—	6,838	6,838
Non-controlling interest	—	—	—	—	—	—	—	2,249	2,249
Balances at January 1, 2017	**497,055**	**4,737**	**5,659,644**	**(8,811)**	**(1,428,441)**	**173,472**	**(2,335,301)**	**924**	**1,892,752**
Net loss attributable to Cypress	—	—	—	—	(80,915)	—	—	—	(80,915)
Net unrealized loss on cash flow hedges	—	—	—	7,125	—	—	—	—	7,125
Unrealized gain on defined benefit pension plan	—	—	—	324	—	—	—	—	324
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	477	—	477
Adoption of ASU 2016-09		—	2,350	—	(2,350)		—	—	—
Issuance of common shares under employee stock plans, net	11,316	26	47,245	—	—	—	—	—	47,271
Issuance of common shares upon conversion of 2% 2020 Exchangeable Notes	17,348	173	283,634	—	—	27	—	—	283,807
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	—	(120)	—	(120)
Stock-based compensation	—	—	90,261	—	—	—	—	—	90,261
Issuance of 2% 2023 Exchangeable Notes	—	—	15,028	—	—	—	—	—	15,028
Extinguishment of 2% 2020 Exchangeable Notes	—	—	(290,591)	—	—	—	—	—	(290,591)
Dividend	—	—	(147,959)	—	—	—	—	—	(147,959)
Non-controlling interest	—	—	—	—	—	—	—	132	132
Balances at December 31, 2017	**525,719**	**4,936**	**5,659,612**	**(1,362)**	**(1,511,706)**	**173,499**	**(2,334,944)**	**1,056**	**1,817,592**
Net income attributable to Cypress	—	—	—	—	354,592	—	—	—	354,592
Net unrealized loss on cash flow hedges and interest rate swaps	—	—	—	(265)	(1)	—	—	—	(266)
Unrealized gain on defined benefit pension plan	—	—	—	3,456	—	—	—	—	3,456
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	20	—	20
Issuance of common shares under employee stock plans, net	10,206	412	40,230	—	—	33	(504)	—	40,138
Stock-based compensation	—	—	95,173	—	—	—	—	—	95,173
Issuance of common shares upon conversion of 2% 2020 Exchangeable Notes	1,402	14	25,152	—	—	—	—	—	25,166
Extinguishment of 2% 2020 Exchangeable Notes	—	—	(25,696)	—	—	—	—	—	(25,696)
Dividend	—	—	(158,372)	—	—	—	—	—	(158,372)
Repurchase of common shares	—	—	—	—	—	2,093	(31,681)	—	(31,681)
Yield enhancement structured agreements, net	—	—	—	—	—	250	(3,343)	—	(3,343)
Non-controlling interest	—	11	—	—	—	—	—	249	260
Balances at December 30, 2018	**537,327**	**$5,373**	**$5,636,099**	**$ 1,829**	**$(1,157,115)**	**175,875**	**$(2,370,452)**	**$ 1,305**	**$2,117,039**

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

CYPRESS SEMICONDUCTOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 354,831	$ (80,783)	$(683,877)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation expenses	95,965	91,581	98,513
Depreciation and amortization	282,985	264,905	265,922
Impairment of acquisition-related intangible assets	—	—	33,944
Impairment of assets held for sale	76,591	—	37,219
Impairment of goodwill	—	—	488,504
Gain on divestitures	—	(1,245)	—
Gain related to investment in Deca Technologies	—	—	(112,774)
(Gain) loss on sale or retirement of property and equipment, net	7,505	(1,165)	7,375
Change in interest rate swaps	2,848	—	—
Share in net loss and impairment of equity method investees	57,370	71,772	17,644
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	19,513	21,091	13,139
Release of valuation allowance	(343,274)	—	—
Loss on trading securities	—	—	598
Loss on extinguishment of debt	5,169	7,246	—
Restructuring and other costs	16,128	8,997	27,235
Changes in operating assets and liabilities, net of effects of acquisitions and divestiture:			
Accounts receivable	(23,836)	37,046	(41,022)
Inventories	(20,757)	14,327	(33,677)
Asset held for sale	(13,510)	—	—
Other current and long-term assets	5,379	9,629	(12,225)
Price adjustments and other distributor related reserves	(14,487)	19,067	100,389
Accounts payable and other liabilities	(36,720)	(58,981)	79,476
Deferred margin on sales to distributors	—	—	(68,964)
Net cash provided by operating activities	471,700	403,487	217,419
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(2,655)	—	(550,000)
Proceeds from maturities of available-for-sale investments	—	—	40,000
Proceeds from sales of available-for-sale investments	—	—	45,904
Purchases of available-for-sale securities	—	—	(80,202)
Net (contributions) distributions, net of distributions to deferred compensation plan	2,541	2,562	(1,857)
Acquisition of property, plant and equipment	(68,899)	(54,284)	(57,398)
Proceeds from sales of property and equipment	5,769	2,340	—
Investment in Deca Technologies Inc.	—	—	17,627
Cash paid for equity and cost method investments	—	(9,285)	(27,149)
Cash received on cost method investments	18,538	—	—
Proceeds from divestitures	—	45,500	—
Other investing	(4,984)	(1,262)	(364)
Net cash used in investing activities	(49,690)	(14,429)	(613,439)
Cash flows from financing activities:			
Repurchase of common stock	(31,682)	—	(175,694)
Yield enhancement structured agreements settled in stock, net	(3,262)	—	—
Proceeds from employee stock-based awards	40,661	47,153	43,850
Payments of cash dividends	(157,364)	(144,749)	(141,410)
Purchase of capped calls	—	—	(8,165)
Repayment of equipment leases, loans and other	—	(112)	(11,061)
Borrowings under senior secured revolving credit facility	94,000	190,000	195,000
Borrowings under Term Loans	—	91,250	450,000
Repayments of senior secured revolving credit facility	(184,000)	(432,000)	(312,000)
Repayment of Term Loans	(35,614)	(118,701)	(10,625)
Financing costs related to debt	(625)	(12,475)	(27,893)
Payment for extinguishment of 2% 2020 Exchangeable Notes	(10,000)	(128,000)	—
Proceeds from issuance of Exchangeable Notes	—	150,000	287,500
Net cash provided by (used in) financing activities	(287,886)	(357,634)	289,502
Net increase (decrease) in cash and cash equivalents	134,124	31,424	(106,518)
Cash and cash equivalents, beginning of year	151,596	120,172	226,690
Cash and cash equivalents, end of year	285,720	151,596	120,172
Supplemental disclosures:			
Dividends payable	$ 39,748	$ 38,741	$ 35,506
Cash paid for income taxes, net	9,080	6,576	8,288
Cash paid for interest	39,504	53,131	32,625
Unpaid purchases of property, plant and equipment	5,875	14,291	3,960

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

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

Cypress Semiconductor Corporation (together with its consolidated subsidiaries, "Cypress" or the "Company") manufactures and sells advanced embedded system solutions for automotive, industrial, consumer and enterprise end markets. Cypress' microcontroller, analog integrated circles ("ICs"), wireless and wired connectivity solutions and memories help engineers design differentiated products and help them with speed to market. Cypress is committed to providing customers with support and engineering resources.

On July 5, 2016, the Company completed its acquisition of certain assets primarily related to the wireless Internet of Things business ("wireless IoT business") of Broadcom Corporation ("Broadcom") pursuant to an Asset Purchase Agreement with Broadcom, dated April 28, 2016, for a total consideration of approximately $550 million.

On July 29, 2016, Deca Technologies Inc. ("Deca"), a majority-owned subsidiary of the Company, entered into a share purchase agreement, whereby certain third-party investors purchased 41.1% of the shares outstanding on such date for an aggregate consideration of approximately $111.4 million. Concurrently, Deca repurchased certain of its preferred shares from the Company. As a result of these transactions, the Company began accounting for Deca as an equity-method investment effective July 29, 2016.

During the third quarter of fiscal 2017, the Company completed the sale of its wafer fabrication facility in Minnesota for gross proceeds of $30.5 million.

On August 14, 2018, the Company acquired an embedded software company focused on the Internet of Things (or "IoT") market for cash consideration of $3.0 million. The purchase consideration was allocated to acquired developed technology.

On October 23, 2018, the Company agreed to transfer its NAND business to a joint venture ("JV") with SK hynix systems ic Inc ("SKHS"). The transaction is subject to customary closing conditions and regulatory approvals. The Company presently expects that the transaction will be completed in the first quarter of fiscal 2019. In addition to our NAND flash business, the Company will contribute $2.4 million in cash towards the equity of the JV. The Company will own 40% of the JV's common stock.

The comparability of results for the periods presented is significantly impacted by these transactions.

Basis of Preparation

The Company reports on a fiscal-year basis. The Company ends its quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Fiscal 2018 ended on December 30, 2018, fiscal 2017 ended on December 31, 2017 and fiscal 2016 ended on January 1, 2017. Fiscal years 2018, 2017 and 2016 each contained 52 weeks.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of Cypress and all of its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Certain balances included on the Consolidated Balance Sheets and in the Consolidated Statements of Cash Flows for prior periods have been reclassified to conform to the current period presentation. Beginning fiscal year 2018, the Company allocated the amortization of acquisition-related intangible assets, restructuring costs and certain other expenses by function in the Consolidated Statements of Operations. The Consolidated Statements of Operations for the prior comparative periods have been reclassified to conform to the current period presentation as follows:

	Year Ended December 31, 2017		
	As Previously Reported	Reclassification	As Adjusted
		(In thousands)	
Cost of revenues	$1,370,309	$ 175,528	$1,545,837
Research and development	357,016	5,915	362,931
Selling, general and administrative	303,651	37,259	340,910
Amortization of intangible assets	195,304	(195,304)	—
Costs and settlement charges related to shareholder matter	14,310	(14,310)	—
Restructuring costs	9,088	(9,088)	—
Operating income	$ 78,093	$ —	$ 78,093

	Year Ended January 1, 2017		
	As Previously Reported	Reclassification	As Adjusted
		(In thousands)	
Cost of revenues	$1,235,540	$ 229,072	$1,464,612
Research and development	331,175	15,956	347,131
Selling, general and administrative	317,362	402,741	720,103
Amortization of intangible assets	174,745	(174,745)	—
Restructuring costs	26,131	(26,131)	—
Impairment of acquisition-related intangible assets	33,944	(33,944)	—
Goodwill impairment charge	488,504	(488,504)	—
Gain related to investment in Deca Technologies	(112,774)	112,774	—
Impairment related to asset held for sale	37,219	(37,219)	—
Operating loss	$ (608,738)	$ —	$ (608,738)

Cash Equivalents and Investments

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

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash in the bank, cash equivalents, debt investments, foreign exchange hedges, interest rate swap obligations, trade accounts receivable and the capped calls. The Company's investment policy requires cash investments to be placed with high-credit quality institutions and limits the amount of credit exposure with any one issuer. The Company performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. The Company mitigates its exposure to credit risk to the extent that its counterparties for hedging transactions may be unable to meet the terms of the transactions. The Company mitigates this risk by diversifying and limiting its counterparties to major financial institutions.

Outstanding accounts receivable from one of the Company's distributors accounted for 25% and 28% of the consolidated accounts receivable as of December 30, 2018 and December 31, 2017, respectively.

Revenue generated through two of the Company's distributors, accounted for 18% and 14%, respectively, of Company's consolidated revenues for fiscal 2018.

Revenue generated through two of the Company's distributors, accounted for 20% and 13%, respectively, of the consolidated revenues for fiscal 2017.

Revenue generated through one of the Company's distributors, accounted for 23% of the consolidated revenues for fiscal 2016.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or net realizable value. The Company writes down its inventories which have become obsolete or are in excess of anticipated demand or net realizable value based upon assumptions about demand forecasts, product life cycle status, product development plans and current sales levels.

Long-Lived Assets

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

Equipment	3 to 10 years
Buildings and leasehold improvements	5 to 20 years
Furniture and fixtures	3 to 7 years

The Company evaluates its long-lived assets, including property, plant and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

projected future operating results, significant changes in the manner of use of assets, significant negative industry or economic trends, and a significant decline in the Company's stock price for a sustained period of time. Impairment is recognized based on the difference between the estimated fair value of the asset and its carrying value. Estimated fair value is generally measured based on quoted market prices, if available, appraisals or discounted cash flow analysis.

Assets Held for Sale

The Company considers assets to be held for sale when management approves and commits to a plan to dispose of an asset or group of assets. Assets held for sale are recorded initially at the lower of carrying value or estimated fair value, less estimated costs to sell. Upon designation as an asset held for sale, the Company stops recording depreciation and amortization expense on such assets. Costs to sell a disposal group include incremental direct costs to transact the sale and represent the costs that result directly from and are essential to a sale transaction that would not have been incurred by the entity had the decision to sell not been made.

The properties that are held for sale prior to the sale date are classified as held for sale and are presented separately in the appropriate asset and liability sections of the balance sheet. See *Note 6* of the Notes to Consolidated Financial Statements for more information.

Goodwill and Other Intangible Assets

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

The Company assesses goodwill for impairment on an annual basis on the first day of the fourth quarter of the fiscal year and if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The Company first considers qualitative factors to determine whether it is necessary to perform further assessment of goodwill impairment. If the Company believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. See *Note 4* of the Notes to Consolidated Financial Statements for more information.

Purchased intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are reviewed for impairment as discussed above. See *Note 5* of the Notes to Consolidated Financial Statements for more information.

Acquisition related In-process Research and Development

Acquisition-related in-process research and development represents the fair value of incomplete research and development projects that have not reached technological feasibility as of the date of acquisition. Initially, these assets are not subject to amortization. The incomplete projects are reviewed each quarter for impairment related to cancellation, change in business plans as well as completion. Assets related to projects that have been completed are transferred to developed technology, which are subject to amortization.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Convertible debt

In accounting for each series of Senior Exchangeable Notes (as described in Note 15) at issuance, the Company separated the Notes into debt and equity components according to accounting standards codification ("ASC") 470-20 for convertible debt instruments that may be fully or partially settled in cash upon conversion. The carrying amount of the debt component, which approximates its fair value, was estimated by using an interest rate for non-convertible debt, with terms similar to the Notes. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to the carrying value of the Notes over their term as interest expense using the effective interest method. In accounting for the transaction costs incurred relating to issuance of the Notes, the Company allocated the costs of the offering in proportion to the fair value of the debt and equity recognized in accordance with the accounting standards. The transaction costs allocated to the debt are being amortized as interest expense over the term of the Notes.

The fair value of debt immediately prior to its derecognition is calculated based on the remaining expected life of the debt instrument and an updated current non-convertible debt rate assumption. The gain or loss on extinguishment equaling the difference between the calculated fair value of the debt immediately prior to its derecognition and the carrying amount of the debt components, including the remaining unamortized debt discount, is recorded in the Consolidated Statements of Operations. The remainder of the consideration relates to the reacquisition of the equity component and as an adjustment to additional paid-in-capital.

In accounting for the cost of the capped call transaction entered in connection with the issuance of the 4.5% 2022 Senior Exchangeable Notes, the Company included the cost as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheet, in accordance with the guidance in ASC 815-40 "Derivatives and Hedging—Contracts in Entity's Own Equity". See *Note 15* of the Notes to Consolidated Financial Statements for more information.

Revenue Recognition

The Company recognizes revenues when the Company transfers control of promised goods or services to the customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See *Note 2* for further discussion on Revenues.

Employee Benefit Plans

A defined benefit pension plan is accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the corporate bonds yield curve as of end of the most recently completed fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long-term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO, being the corridor amount. If the amount of a net gain or loss does not exceed the corridor amount, it will be recorded to other comprehensive income (loss). See *Note 19* of the Notes to Consolidated Financial Statements for further details of the pension plans.

Investments in equity interests

Investments in the stock of entities in which the Company exercises significant influence but does not own a majority equity interest or otherwise control are accounted for using the equity method and are included as equity method investments in its consolidated balance sheets. The Company records its share of the results of those companies within share in net loss and impairment of equity method investees in its Consolidated Statements of Operations. Investments in privately held equity interests in which the Company does not exercise significant influence are equity securities without readily determinable fair values. The Company has elected to account for these investments using the measurement method of accounting (that is, cost less impairment adjusted for observable price changes). These investments are included in other long-term assets on the Consolidated Balance Sheets.

The Company reviews its investments for other-than-temporary impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as current economic and market conditions, the operating performance of the entities including current earnings trends and forecasted cash flows, and other company and industry specific information.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. See *Note 8* of the Notes to Consolidated Financial Statements for a detailed discussion of fair value measurements.

Cash Flow Hedges

The Company has an on-going cash flow hedge program and enters into cash flow hedges to protect non-functional currency revenue, inventory purchases and certain operating expenses from foreign currency fluctuation and interest rate variability. The Company does not enter into derivative securities for speculative purposes. The Company's foreign currency forward contracts that were designated as cash flow hedges generally have tenors between three and thirteen months while interest rate swaps have a tenor of several years. All hedging relationships are formally documented, and the hedges are designed to offset changes to future cash flows on hedged transactions at the inception of the hedge. The Company recognizes derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measures them at fair value on a monthly basis. The Company records changes in the intrinsic value of its cash flow hedges in accumulated other comprehensive income on the Consolidated Balance Sheets, until the forecasted transaction occurs. Beginning the

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

second quarter of 2018, the Company entered into foreign exchange cash flow hedges, in which interest charges or "forward points" on the forward contracts are included in the assessment of hedge effectiveness, and are recorded in the underlying hedged items in the Consolidated Statements of Operations. When the forecasted transaction occurs, the Company reclassifies the related gain or loss on the cash flow hedge to revenue or costs, depending on the risk hedged. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to other (expense) income, net in its Consolidated Statements of Operations at that time.

The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other (expense) income, net in its Consolidated Statements of Operations.

See *Note 12* of the Notes to Consolidated Financial Statements for further details of the contracts.

Shipping and Handling Costs

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

Advertising Costs

Advertising costs consist of development and placement costs of the Company's advertising campaigns and are charged to expense when incurred. Advertising expense was $5.9 million, $3.2 million and $3.1 million for fiscal years 2018, 2017 and 2016, respectively.

Income Taxes

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

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

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act (the "Act"). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The GILTI provision is effective for the Company beginning after December 31, 2017. Companies are

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

permitted to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the tax is incurred (the "period cost method"), or (ii) account for GILTI in the Company's measurement of deferred taxes (the "deferred method"). The Company has elected to treat taxes on GILTI as period costs similar to special deductions and period expenses.

Foreign Currency Transactions

The Company uses the United States dollar as the functional currency for all of its foreign entities. Assets and liabilities of these entities are remeasured into the United States dollar using exchange rates in effect at the end of the period, except for non-monetary assets and liabilities, such as property, plant and equipment, which are remeasured using historical exchange rates. Revenues and expenses are remeasured using average exchange rates in effect for the period, except for items related to assets and liabilities, such as depreciation, that are remeasured using historical exchange rates. See *Note 14* of the Notes to Consolidated Financial Statements for further details on the impact of foreign currency re-measurement.

Net income (loss) per share

Basic net income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock options or warrants (if any), using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock options or warrants (if any) and any unamortized compensation expenses), and exchangeable notes, using the treasury stock method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

Impact of Recently Issued Accounting Pronouncements

The following are the accounting pronouncements issued but not adopted that may materially affect the Company's consolidated financial statements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, "Leases (Topic 842)," which replaces most current lease guidance when it becomes effective. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Consolidated Statements of Operations. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements," which provides clarifications and improvements to ASU 2016-02 including allowing entities to elect an additional transition method that permits changes to be applied by means of a cumulative-effect adjustment recorded in retained earnings as of the beginning of the fiscal year of adoption. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, Leases (Topic 840) ("ASC 840"), including the disclosure requirements of ASC 840. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company developed and executed a comprehensive project plan to facilitate the implementation of ASU 2016-02, including reaching out to the Company's global businesses to assess the portfolio of active leases. The Company has also implemented a lease accounting software solution to support the new reporting requirements.

The Company does not expect to restate comparative periods, as permitted by ASU 2018-11 and to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carry forward the historical lease classification. Further, the Company will make an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company will recognize those lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term.

The Company has completed its preliminary evaluation of the impact the new lease accounting guidance will have on its Consolidated Financial Statements and expects to recognize new right of use assets and lease liabilities of approximately $25 million to $45 million for its operating leases on the Consolidated Balance Sheet upon adoption. Lease assets and liabilities under existing capital leases as of December 31, 2018, will continue to be recognized on the balance sheet as Finance leases under ASC 842. The Company does not expect the changes to have a material impact on the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. Further, upon adoption, the Company will expand its financial statement disclosures to present additional details of its leasing arrangements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in ASU 2017-12 are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance in ASU 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a significant impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in ASU 2018-02 are intended to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The guidance in ASU 2018-02 is effective for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a significant impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The standard expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. Under the amended guidance, equity-classified share-based payment awards issued to nonemployees will be measured at grant date fair value. Upon transition, the entity is required to remeasure these nonemployee awards at fair value as of the adoption date. The improvement is effective for fiscal years beginning after December 15, 2018,

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

including interim periods within that fiscal year. The Company does not anticipate that the adoption of this standard will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The standard modifies the disclosure requirements on fair value measurements in Topic 820 by removing the requirement to disclose the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The standard expands the disclosure requirements for Level 3 fair value measurement, primarily focused on changes in unrealized gains and losses included in other comprehensive income. The amendment is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." It is designed to improve the effectiveness of disclosures by removing and adding disclosures related to defined benefit plans. The update is effective for fiscal years ending after December 15, 2020 with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

Adoption of ASU No. 2014-09, Revenue from Contracts with Customers:

In May 2014, the FASB issued an ASU on revenue from contracts with customers, ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This standard update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance is effective for annual reporting periods beginning after December 15, 2017 and for interim periods within those fiscal years. Collectively, we refer to ASU No. 2014-09, its related amendments, and Subtopic 340-40 as "Topic 606."

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to all contracts that were not completed contracts at the date of initial application (i.e., January 1, 2018). Results for reporting periods after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605. There was no impact on the opening accumulated deficit as of January 1, 2018 due to the adoption of Topic 606. The Company reclassified the sales return reserve to current liabilities presented as "Price adjustment and other revenue reserves" from the allowance for accounts receivable due to the adoption of Topic 606. See Note 2 for further detail.

Other Recently Adopted Pronouncements:

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." For public entities, ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash," which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 (including interim periods within those periods) using a retrospective transition method to each period presented. The Company adopted the provisions of ASU 2016-18 as of January 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The corrections and improvements are effective for the Company for fiscal years beginning after December 15, 2017 and for interim periods within those fiscal years beginning after June 15, 2018. The Company adopted this guidance in the third quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 amends the requirements in GAAP related to accounting for changes to stock-based compensation awards. The guidance in ASU 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

NOTE 2. REVENUE

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Sales of products with alternative use account for the majority of the Company's revenue and are recognized at a point in time.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. REVENUE (Continued)

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and that are collected by the Company from a customer and deposited with the relevant government authority are excluded from revenue. The Company's revenue arrangements do not contain significant financing components.

Revenue is recognized over a period of time when it is assessed that performance obligations are satisfied over a period rather than at a point in time. When any of the following criteria is fulfilled, revenue is recognized over a period of time:

(a) The customer simultaneously receives and consumes the benefits provided by the performance as Cypress performs.

(b) Cypress' performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced.

(c) Cypress' performance does not create an asset with an alternative use, and Cypress has an enforceable right to payment for performance completed to date.

The Company then selects an appropriate method for measuring progress toward complete satisfaction of the performance obligation, usually costs incurred to date relative to the total expected costs to the satisfaction of that performance obligation.

Sales to certain distributors are made under arrangements that provide the distributors with price adjustments, price protection, stock rotation and other allowances under certain circumstances. These adjustments and allowances are accounted for as variable consideration. The Company estimates these amounts based on the expected amount to be provided to customers and reduce revenue recognized. The Company believes that there will not be significant changes to its estimates of variable consideration.

The Company's non-recurring engineering ("NRE") contracts with customers may include multiple performance obligations. For NRE arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines the standalone selling price of intellectual property licenses based on the residual approach, and service based on cost plus a reasonable margin. The Company recognizes revenue in the amount to which it has a right to invoice, if the right to consideration from the customer is in an amount that corresponds reasonably with the value to the customer of the entity's performance completed to date.

The Company licenses or sells rights to use portions of the Company's intellectual property ("IP") portfolio, which includes certain patent rights useful in the manufacture and sales of certain products. IP revenue recognition is dependent on the nature and terms of each agreement. The Company recognizes IP revenue upon delivery of the IP if the Company has no substantive future obligation to perform under the arrangement. The Company defers recognition of IP revenue where future performance obligations are required to earn the revenue or the revenue is not guaranteed. Sales-based or usage-based royalties from license of the Company's IP are recognized at the later of the period the sales or usages occur or the satisfaction of the performance obligation to which some or all of the sales-based or usage-based royalties have been allocated.

If a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional before the Company transfers a good or service to the customer, those amounts are

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. REVENUE (Continued)

classified as deferred income/advances received from customers which are included in other current liabilities or other long-term liabilities when the payment is made or it is due, whichever is earlier.

If the arrangement includes variable contingent consideration, the Company recognizes revenue over time if management can reasonably measure its progress or is capable of providing reliable information as required to apply an appropriate method of measuring progress.

The following table presents the Company's revenue disaggregated by segment, end market, revenue type and geographical locations:

	For The Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Microcontroller and Connectivity Division ("MCD")	$1,474,442	$1,409,265	$ 994,482
Memory Products Division ("MPD")	1,009,398	918,506	928,626
Total revenues	$2,483,840	$2,327,771	$1,923,108

	For The Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Industrial	479,091	430,976	453,887
Automotive	815,413	720,659	625,327
Consumer	721,402	742,372	557,302
Enterprise	467,934	433,764	286,592
Total	2,483,840	2,327,771	1,923,108

	For The Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Product revenue	$2,439,373	$2,239,056	$1,828,061
Non-product revenue(1)	44,467	88,715	95,047
Total revenue	$2,483,840	$2,327,771	$1,923,108

(1) Non-product revenue primarily includes royalty, NRE, and patent revenues.

	For The Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Goods/Services transferred at a point in time	$2,470,270	$2,282,200	$1,887,463
Goods/Services transferred over time	13,570	45,571	35,645
Total revenue	$2,483,840	$2,327,771	$1,923,108

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. REVENUE (Continued)

	For The Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
United States	$ 253,420	$ 220,128	$ 199,294
China, Taiwan, and Hong Kong	972,869	980,670	819,200
Japan	589,818	515,622	420,869
Europe	329,436	291,948	255,604
Rest of the World	338,297	319,403	228,141
Total revenue	$2,483,840	$2,327,771	$1,923,108

Practical Expedients and Elections

Sales commissions are owed and are recorded at the time of sell-through of our products to end customers. These costs are recorded within sales and marketing expenses.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

The Company has elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

NOTE 3. MERGERS, ACQUISITIONS AND DIVESTITURES

Joint Venture with SK hynix

On October 23, 2018, the Company entered into a definitive agreement with SKHS (a wholly owned subsidiary of SK Hynix) to form a JV entity to be headquartered in Hong Kong. The transaction is expected to close in the second quarter of fiscal 2019. The Company will contribute $2.4 million in cash and transfer its NAND business to the JV entity. The Company will own 40% of the JV entity's common stock. The NAND business is presently reported as part of the MPD segment. The Company recognized $167.3 million, $168.1 million and $180.5 million in revenue from the NAND business for the years ended December 30, 2018, December 31, 2017 and January 1, 2017, respectively.

Acquisition of a software business

On August 14, 2018, the Company acquired an embedded software company focused on the Internet of things market for cash consideration of $3 million. The purchased assets were primarily developed technology. Pro forma results of operations of this acquired company are not presented because the effect of the acquisition was not material.

Acquisition of IoT Business

On July 5, 2016, the Company completed its acquisition of certain assets primarily related to the wireless IoT business of Broadcom Corporation pursuant to an Asset Purchase Agreement, dated April 28, 2016. In connection with the closing of the transaction, the Company paid Broadcom

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. MERGERS, ACQUISITIONS AND DIVESTITURES (Continued)

$550 million in cash. The results of the business acquired as part of this acquisition are reported in the Company's Microcontroller and Connectivity Division.

The acquisition was accounted for using the purchase method of accounting. Approximately $9.2 million in expenses were incurred as acquisition expenses related to the wireless IoT business and were recorded in the Selling, general and administrative line item in the Consolidated Statements of Operations.

The table below represents the allocation of the purchase price to the net assets acquired based on their estimated fair values:

	Final allocation as of January 1, 2017
Intangible assets	$324,000
Property, plant and equipment	16,270
Inventories	11,655
Other current assets	6,550
Other long-term assets	4,203
Goodwill	189,094
Total assets acquired	$551,772
Other current liabilities	(1,199)
Other long-term liabilities	(573)
Total liabilities assumed	(1,772)
Fair value of net assets acquired	$550,000

The purchase price was allocated based on the estimated net tangible and intangible assets of the wireless IoT business that existed on the date of the acquisition. The fair value of identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisition.

Identifiable intangible assets

The table below shows the valuation of the intangible assets acquired from Broadcom along with their estimated useful lives:

	Amount (in thousands)	Estimated life (in years)
Existing Technology	$189,300	4
In-Process Research and Development Technology Arrangement	88,900	N/A
Backlog	13,500	<1
Customer Relationships	20,000	10
License Agreements	3,700	1
Trademarks	8,600	4
Total intangible assets	$324,000	

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. MERGERS, ACQUISITIONS AND DIVESTITURES (Continued)

In-process research and development ("IPR&D") consisted of six projects. All projects reached technological feasibility and were transferred to developed technology by the end of fiscal 2018. The related intangible assets are amortized over their useful lives which were approximately 4 years.

Goodwill

The excess of the fair value of the purchase consideration over the fair values of these identifiable assets and liabilities was recorded as goodwill. The goodwill recognized is primarily attributable to the assembled workforce, a reduction in costs and other synergies, and an increase in product development capabilities. Goodwill was initially allocated to the Company's previous Data Communications Division and was reallocated to the new Microcontroller and Connectivity Division during the fourth quarter of 2016. The goodwill resulting from the acquisition is deductible for tax purposes.

Pro forma consolidated results of operations

The following unaudited pro forma financial data for the year ended January 1, 2017 assumes that the acquisitions of the wireless IoT business from Broadcom had occurred at the beginning of fiscal year 2017. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment, adjustments to stock-based compensation expense, and interest expense for the incremental indebtedness incurred, amortization of the step up to fair value of acquired inventory, acquisition related expenses and tax related expenses.

	Year Ended January 1, 2017
	(In thousands, except per-share amounts)
Revenues	$2,018,124
Net loss	$ (722,342)
Net loss per share attributable to Cypress	
Basic	$ (2.26)
Diluted	$ (2.26)

NOTE 4. GOODWILL

Allocation of Goodwill to NAND business

As a result of entering into a definitive agreement to divest its NAND business during the fourth quarter of fiscal 2018, the Company allocated $65.7 million of goodwill previously recorded in the MPD segment to asset held for sale. The allocation was based on the relative estimated enterprise value of the NAND business and that of the MPD business without the NAND business. See *Note 6* of the Notes to Consolidated Financial Statements.

Annual impairment assessment

Goodwill is subject to an annual impairment test during the Company's fourth quarter of each fiscal year, or earlier if indicators of potential impairment exist, using either a qualitative or a quantitative assessment. The Company's impairment review process compares the fair value of the reporting unit in which the goodwill resides to the respective reporting unit's carrying value.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. GOODWILL (Continued)

In fiscal 2018 and 2017, the annual evaluation of the goodwill by reporting unit was performed during the fourth quarter of the fiscal year. In assessing the qualitative factors, the Company considered the impact of these key factors: 1) change in the industry and competitive environment, 2) market capitalization, 3) stock price and 4) overall financial performance. Material adverse changes in such conditions could have the effect of changing one of the critical assumptions or estimates the Company uses to calculate the fair value of its reporting units, which could result in a decrease in fair value and require it to record goodwill impairment charges. Based on the qualitative assessment described above, the Company concluded there was no impairment in carrying value of goodwill during fiscal 2018.

In fiscal 2016, the Company recorded an impairment charge of $488.5 million for the excess of the carrying value of goodwill over its implied fair value. The impairment was related to the legacy PSD reporting unit which was part of the MCD reportable segment.

Goodwill as of December 30, 2018 was $1.4 billion, of which $782.9 million and $590.9 million was allocated to Microcontroller & Connectivity Division ("MCD") and Memory Products Division ("MPD") respectively. Goodwill as of December 31, 2017 was $1.4 billion, of which $782.9 million and $656.6 million was allocated to MCD and MPD, respectively.

NOTE 5. INTANGIBLE ASSETS

The following table presents details of the Company's total intangible assets:

	As of December 30, 2018			As of December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net(a)
			(In thousands)			
Developed technology and other intangible assets						
Acquisition-related intangible assets	$1,188,521	$(702,883)	$485,638	$1,072,824	$(490,327)	$582,497
Non-acquisition related intangible assets	19,884	(14,932)	4,952	19,884	(10,828)	9,056
Total developed technology and other intangible assets	$1,208,405	$(717,815)	490,590	$1,092,708	$(501,155)	$591,553
In-process research and development	—	—	—	123,567	—	123,567
Total intangible assets	$1,208,405	$(717,815)	$490,590	$1,216,275	$(501,155)	$715,120

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. INTANGIBLE ASSETS (Continued)

The below table presents details of the IPR&D assets as of December 30, 2018:

	(in thousands)
As of January 1, 2017	$ 175,203
Technological feasibility achieved	(51,636)
As of December 31, 2017	123,567
Technological feasibility achieved	(123,567)
As of December 30, 2018	$ —

During fiscal 2018, five projects representing $123.6 million of the total capitalized IPR&D, with estimated useful lives of 4 - 5 years, reached technological feasibility and were transferred to developed technology.

During fiscal 2017, five projects representing $51.6 million of the total capitalized IPR&D, with estimated useful lives of 5 years, reached technological feasibility and were transferred to developed technology.

As a result of entering into a definitive agreement to divest its NAND business during the fourth quarter of fiscal 2018, the Company classified $10.9 million of intangible assets attributable to the NAND business as assets held for sale. See *Note 6* of the Notes to Consolidated Financial Statements.

As of December 30, 2018, the estimated future amortization expense related to developed technology and other intangible assets was as follows:

Fiscal Year	(In thousands)
2019	$207,408
2020	153,709
2021	58,468
2022	33,001
2023	28,334
Thereafter	9,670
Total future amortization expense	$490,590

NOTE 6. ASSETS HELD FOR SALE

Sale of NAND business

The Company allocated $65.7 million of goodwill previously recorded in the MPD segment to the NAND business being divested. The allocation was based on the relative estimated enterprise value of the NAND business and that of the MPD business. The intangible assets attributable to the NAND business acquired as part of a previous acquisition were $10.9 million and the inventories for the NAND business were $13.5 million as of the end of fiscal 2018. The allocated goodwill, intangible assets and inventories were classified as held for sale during the fourth quarter of 2018 upon the execution of the NAND Definitive Agreement. The agreement does not contemplate any transfers of patents or other intellectual property from Cypress to the J.V. Depreciation and amortization expense corresponding to the assets classified as held for sale ceased at that time. This divestiture was not

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. ASSETS HELD FOR SALE (Continued)

presented as discontinued operations in the consolidated statements of operations, because this transaction does not represent a strategic shift in the Company's business.

The transaction with SKHS is expected to close in the by the end of the first quarter of fiscal 2019, upon receipt of necessary regulatory approvals and satisfaction of closing conditions. As of the end of fiscal 2018, the Company evaluated the recoverability of the carrying value of its assets held for sale related to the NAND Definitive Agreement. Given the proximity of the anticipated closing of the transaction to the end of fiscal 2018, the Company has considered the value expected to be realized from the JV as the part of this recoverability assessment and concluded that the Company is not expected to recover the carrying value of goodwill and intangible assets. Accordingly, the Company recorded an impairment charge of $76.6 million during fiscal 2018.

The aggregate value of the remaining assets recorded as held for sale at the end of fiscal year 2018 was $13.5 million.

Sale of manufacturing facility located in Minnesota

In fiscal 2016, the Company committed to a plan to sell its wafer manufacturing facility located in Bloomington, Minnesota, as well as a building in Austin, Texas. The carrying value of these assets held for sale as at the end of fiscal 2016 reflected the lower of the carrying value or fair value, net of estimated costs to sell the assets. The Company performed an analysis and estimated the fair value of the assets, less estimated selling costs, and determined the fair value was lower than the carrying value of the assets. As a result, based on this analysis the Company recorded an impairment charge of $37.2 million during fiscal 2016 to write these assets down to their estimated fair value, less selling costs.

The sales of the wafer fabrication facility in Minnesota and the sale of the building in Austin were completed during the first quarter of fiscal 2017. During the year ended December 31, 2017, the Company recorded a gain of $1.2 million resulting from the change in the estimated costs to sell these assets. This gain was recorded in the selling, general and administrative line item of the Consolidated Statements of Operations. The Company completed the sale of both of these asset groups during the year ended December 31, 2017 and received gross proceeds from the sales of $35.5 million.

NOTE 7. INVESTMENT IN EQUITY METHOD INVESTMENTS

Privately-held equity investments are accounted for under the equity method of accounting if the Company has an ownership interest of 20% or greater or if it has the ability to exercise significant influence over the operations of such companies.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. INVESTMENT IN EQUITY METHOD INVESTMENTS (Continued)

The below table presents the changes in the carrying value of the equity method investments.

	As of December 30, 2018 (In thousands)		
	Deca Technologies Inc. ("Deca")	Enovix Corporation ("Enovix")	Total
Carrying value as of January 1, 2017	$134,327	$ 54,360	$188,687
Additional investment	—	5,600	5,600
Equity in net loss of equity method investees	(11,813)	(8,773)	(20,586)
Impairment of investment	—	(51,187)	(51,187)
Carrying value as of December 31, 2017	122,514	—	122,514
Equity in net loss of equity method investees	(15,849)	—	(15,849)
Impairment of investment	(41,520)	—	(41,520)
Carrying value as of December 30, 2018	$ 65,145	$ —	$ 65,145

The following table presents summarized aggregate financial information derived from the respective consolidated financial statements of Deca for the year ended December 30, 2018 and of Deca and Enovix for the year ended December 31, 2017.

	Year Ended	
	December 30, 2018	December 31, 2017
	(in thousands)	
Operating data:		
Revenue	$ 18,562	$ 15,500
Gross loss	(11,605)	(8,964)
Loss from operations	(29,619)	(44,415)
Net loss	(30,212)	(43,589)
Net loss attributable to Cypress	$(15,849)	$(20,586)

The following table represents the assets and liabilities held by Deca as of December 30, 2018, and by Deca and Enovix as of December 31, 2017.

	For the Year Ended	
	December 30, 2018	December 31, 2017
	(in thousands)	
Balance Sheet Data:		
Current Assets	$25,865	$70,101
Long-term Assets	$51,176	$55,673
Current Liabilities	$ 9,635	$15,615
Long-term Liabilities	$ 877	$ 1,859

The Company's investments are periodically reviewed for other-than-temporary declines in fair value by considering available evidence, including general market conditions, financial condition, pricing

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. INVESTMENT IN EQUITY METHOD INVESTMENTS (Continued)

in recent rounds of financing, if any, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

Deca Technologies Inc.

On July 29, 2016, Deca, a majority owned subsidiary of the Company entered into a share purchase agreement (the "Purchase Agreement"), whereby certain third-party investors purchased 41.1% of the shares outstanding on such date for an aggregate consideration of approximately $111.4 million. Concurrently, Deca repurchased certain of its preferred shares from Cypress.

After giving effect to the above transactions, the Company's ownership in Deca was reduced to 52.2% as of July 29, 2016. As a consequence of the substantive rights afforded to third-party new investors in the Purchase Agreement, including, among other things, participation on the Board of Directors of Deca, the approval of operating plans, approval of indebtedness, the Company determined that it no longer has the power to direct the activities of Deca that most significantly impact Deca's economic performance. However, since the Company continues to have significant influence over Deca's financial and operating policies, effective July 29, 2016, the investment in Deca is being accounted for as an equity method investment and is no longer a consolidated subsidiary. The carrying value of this equity method investment as of July 29, 2016 was determined based on the fair value of the equity in Deca, which was estimated to be $142.5 million. This represents the Company's remaining investment in Deca immediately following the investments by the third-party investors. As a result of the change in the method of accounting for the Company's investment in Deca from consolidation to the equity method of accounting, the net carrying value of the assets and liabilities related to Deca and the adjustments related to the recognition of the initial fair value of the equity method investment resulted in a gain of $112.8 million which has been reflected as "Gain related to investment in Deca Technologies Inc." in the Consolidated Statements of Operations.

During the fourth quarter of fiscal 2018, the Company determined that its investment in Deca, which is accounted for as an equity method investment, was other-than temporarily impaired due to failure to achieve significant product development and testing milestones. The Company estimated the fair value of Deca using the income approach. The income approach considers a number of factors that include, but are not limited to, forecasted financial information, growth rates, terminal or residual values and discount rates and require the Company to make certain assumptions and estimates regarding industry economic factors and the future profitability of the business. As a result, the Company recorded a charge of $41.5 million in order to write down the carrying amount of the investment to the estimated fair value as of the end of fiscal 2018. This write down was recorded in "Share in net loss and impairment of equity method investees" in the Consolidated Statements of Operations.

The Company held 52.5% of Deca's outstanding voting shares as of December 30, 2018 and December 31, 2017.

Enovix Corporation

In 2017, the Company completed its investment commitment in Enovix of $85.1 million per the original agreement dated February 22, 2012. Certain third-party investors made additional investments in Enovix in 2018, as a result of which the Company's ownership in Enovix decreased from 41.2% as of December 31, 2017 to 24.8% as of December 30, 2018.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. INVESTMENT IN EQUITY METHOD INVESTMENTS (Continued)

During the fourth quarter of fiscal 2017, the Company determined that its investment in Enovix, which is accounted for as an equity method investment, was other-than temporarily impaired as it did not achieve certain key planned product development milestones. The Company considered various factors in determining whether to recognize an impairment charge, including the expectations of the investee's future cash flows and capital needs, the length of time the investee has been in a loss position, the ability to achieve milestones, and the near-term prospect of the investee and its exit strategy. Enovix's estimated enterprise value is sensitive to its ability to achieve these milestones. Consequently, the Company recognized a charge of $51.2 million in order to write down the carrying amount of the investment to zero. This amount was recorded in "Share in net loss and impairment of equity method investees" in the Consolidated Statements of Operations.

NOTE 8. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 30, 2018 and December 31, 2017:

	As of December 30, 2018			As of December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In thousands)					
Financial Assets						
Cash equivalents:						
Money market funds	$171,777	$ —	$171,777	$20,477	$ —	$20,477
Other current assets:						
Certificates of deposit	—	870	870	—	972	972
Total cash equivalents and other current assets	171,777	870	172,647	20,477	972	21,449
Employee deferred compensation plan assets	18,648	25,749	44,397	47,291	2,204	49,495
Interest rate swaps	—	2,548	2,548	—	—	—
Foreign exchange forward contracts	—	2,362	2,362	—	1,197	1,197
Total financial assets	$190,425	$31,529	$221,954	$67,768	$4,373	$72,141
Financial Liabilities						
Foreign exchange forward contracts	—	1,621	1,621	—	1,426	1,426
Interest rate swaps	—	4,051	4,051	—	—	—
Total financial liabilities	$ —	$ 5,672	$ 5,672	$ —	$1,426	$ 1,426

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments:

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

- Level 1—includes instruments for which quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. The Company's financial assets utilizing Level 1 inputs include money market funds, marketable equity securities and certain employee deferred compensation plan assets.
- Level 2—includes instruments for which the valuations are based on the quoted market price for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company's Level 2 instruments include certain U.S. government securities, commercial paper, corporate notes and bonds, certificates of deposit, and deferred compensation plan life insurance assets. The Company determines the fair values of such instruments by using inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, custody bank, third-party pricing vendors, or other sources. Derivative hedging contracts are classified as Level 2 because the valuation inputs are based on observable market data of similar instruments. The Company principally executes its derivative hedging contracts in the retail market in an over-the-counter environment with a relatively high level of price transparency. The market participants and the Company's counterparties are large money center banks and regional banks. The valuation inputs for the Company's derivative hedging contracts are based on observable market data from public data sources (specifically, spot rates, forward points, LIBOR rates, volatilities and credit default rates at commonly quoted intervals) and do not involve management judgment.
- Level 3—includes instruments for which the valuations are based on inputs that are unobservable and significant to the overall fair value measurement. As of December 30, 2018 and December 31, 2017, the Company did not own any material financial assets utilizing Level 3 inputs on a recurring basis.

The Company determines the basis of the cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings using the specific identification method.

As of December 30, 2018, the contractual maturities of the Company's certificates of deposit were less than a year.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. FAIR VALUE MEASUREMENTS (Continued)

In December 2017, the Company entered into fixed-for-floating interest rate forward swap agreements with two counter parties, to swap variable interest payments on certain debt for fixed interest payments. In October 2018, the Company entered into fixed-for-floating interest rate forward swap agreements starting in July 2021 with two counterparties to swap future variable interest payments on existing debt for fixed interest payments; these agreements will expire in December 2024.

In fiscal 2018, the gross asset and liability at fair value was $2.5 million and $4.1 million respectively and the net impact to the Consolidated Statements of Operations was immaterial. See *Note 12* of the Notes to Consolidated Financial Statements for a detail discussion.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain of the Company's assets, including intangible assets, goodwill, cost-method investments and assets held for sale, are measured at fair value on a nonrecurring basis using Level 3 inputs if impairment is indicated.

As of December 30, 2018, the carrying value of the Company's Senior Secured Credit Facility was $467.9 million (See *Note 15*). The carrying value of the Company's Senior Secured Revolving Facility approximates its fair value since it bears an interest rate that is comparable to rates on similar credit facilities and is determined using Level 2 inputs.

The Company's 2% 2020 Spansion Exchangeable Notes assumed as part of the merger with Spansion are traded in the secondary market and are categorized as Level 2. The principal of the Notes and the estimated fair value of the principal as of December 30, 2018 were $12.0 million and $30.9 million respectively. See *Note 15* of the Notes to Consolidated Financial Statements for further details.

The Company's 4.5% 2022 Senior Exchangeable Notes are traded in the secondary market and their fair value is determined using Level 2 inputs. The principal of the Notes and the estimated fair value as of December 30, 2018, were $287.5 million and $336.6 million, respectively. See *Note 15* of the Notes to Consolidated Financial Statements for further details.

The Company's 2% 2023 Exchangeable Notes are traded in the secondary market and their fair value is determined using Level 2 inputs. The principal of the Notes and the estimated fair value of the principal as of December 30, 2018, were $150.0 million and $140.6 million, respectively. See *Note 15* of the Notes to Consolidated Financial Statements for further details.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. BALANCE SHEET COMPONENTS

Accounts Receivable, net

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Accounts receivable, gross	$325,178	$301,465
Allowances for doubtful accounts receivable	(904)	(1,028)
Allowances for sales returns	—	(4,446)
Accounts receivable, net	$324,274	$295,991

Inventories

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Raw materials	$ 10,004	$ 15,635
Work-in-process	215,820	176,427
Finished goods	66,269	80,065
Total inventories	$292,093	$272,127

Other Current Assets

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Prepaid tooling	$ 25,891	$ 21,132
Advance to suppliers	12,058	15,968
Prepaid royalty and licenses	14,863	16,630
Derivative assets	3,492	1,197
Value added tax receivable	7,652	11,412
Prepaid expenses	17,814	17,737
Withholding tax receivable and tax advance	4,236	5,790
Other current assets	15,157	13,771
Total other current assets	$101,163	$103,637

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. BALANCE SHEET COMPONENTS (Continued)

Property, Plant and Equipment, Net

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Land	$ 28,898	$ 29,813
Equipment	607,849	559,573
Buildings, building and leasehold improvements	170,588	174,559
Construction in progress	15,489	17,836
Furniture and fixtures	4,885	5,117
Total property, plant and equipment, gross	827,709	786,898
Less: Accumulated depreciation and amortization	(544,723)	(497,344)
Total property, plant and equipment, net	$ 282,986	$ 289,554

Other Long-term Assets

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Employee deferred compensation plan	$ 44,397	$ 49,495
Investments in cost method equity securities	—	17,017
Long-term licenses	4,495	8,654
Advances to suppliers	11,471	11,315
Deposits	9,441	9,830
Pension plan assets	1,765	8,026
Derivatives assets	1,419	607
Prepaid tooling and other non-current assets	51,317	37,802
Total other long-term assets	$124,305	$142,746

Other Current Liabilities

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Employee deferred compensation plan	$ 44,834	$ 50,629
Restructuring accrual (see Note 11)	14,536	9,580
Derivative liability	1,621	2,033
Accrued expenses	46,592	47,789
Accrued interest	9,440	8,094
Customer advances	5,296	12,873
Other current liabilities	15,745	12,487
Total other current liabilities	$138,064	$143,485

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. BALANCE SHEET COMPONENTS (Continued)

Other Long-Term Liabilities

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Pension and other employee-related liabilities	$14,083	$16,779
Restructuring accrual (see Note 11)	—	8,596
Asset retirement obligation	5,916	5,693
Derivative liability	4,051	—
Other long-term liabilities	3,870	4,374
Total other long-term liabilities	$27,920	$35,442

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION

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

The Company currently has the following employee stock plans:

<u>1999 Stock Option Plan ("1999 Plan"):</u>

The 1999 Plan expired in March 2009. There are currently no shares available for grant under the 1999 Plan. Under the 1999 Plan, awards covering 0.2 million shares are outstanding as of December 30, 2018. Any shares subject to awards that are canceled or forfeited under the 1999 Plan after such date will not be available for future grants since the 1999 Plan has expired.

<u>2013 Stock Plan ("2013 Plan"):</u>

The 2013 Plan provides for (1) the discretionary granting of incentive stock options, nonstatutory stock options, stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), restricted stock units ("RSUs") or performance-based restricted stock units ("PSUs") to employees, consultants and outside directors; and (2) the grant of nonstatutory stock options, SARs, RSAs, RSUs or PSUs to outside directors pursuant to an automatic, non-discretionary formula. Options or awards granted under the 2013 Stock Plan generally expire over terms not exceeding eight years from the date of grant, subject to earlier termination upon the cessation of employment or service of the recipients. The maximum aggregate number of shares authorized for issuance under the 2013 Stock Plan is 203.6 million shares. Shares issued in respect of "full-value awards" (RSAs, RSUs, PSUs, and other awards with a per share purchase price lower than 100% of the stock's fair market value on the date of grant) count against the authorized limit as 1.88 shares for every one share actually issued. As of December 30, 2018, 36.1 million options or 19.2 million RSUs, PSUs and RSAs were available for grant under the 2013 Stock Plan.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

2010 Equity Incentive Award Plan ("2010 Plan"):

In connection with the Company's merger with Spansion, the Company assumed Spansion's 2010 Plan, as amended, which reserves shares of Cypress common stock for issuance under stock options, stock appreciation rights, restricted stock units, restricted stock, performance awards, stock payments, dividend equivalents and deferred stock to employees and consultants. The 2010 Plan provides that incentive stock options may be granted only to employees of the Company or its subsidiaries. All stock options expire if not exercised by the seventh anniversary of the grant date. RSU awards generally vest over a period of two to four years. Options granted become exercisable in full or in installments pursuant to the terms of each agreement evidencing options granted. The exercise of stock options and issuance of restricted stock and restricted stock units is satisfied by issuing authorized common stock or treasury stock. Shares that are subject to or underlie awards that expire or for any reason are canceled, terminated or forfeited, or fail to vest will again be available for grant under the 2010 Plan. Grants from this plan are limited to employees who joined Cypress as part of the merger with Spansion and employees hired after the merger. As of December 30, 2018, a total of 2.5 million stock options, RSUs and RSAs remained available for grant under the 2010 Plan.

2012 Incentive Award Plan ("2012 Plan"):

In connection with the Company's acquisition of Ramtron in 2012, the Company assumed Ramtron's 2012 Plan, as amended, which reserves a total of 1.2 million shares of common stock for issuance. The exercise price of all non-qualified stock options must be no less than 100% of the fair market value on the effective date of the grant under the 2012 Plan, and the maximum term of each grant is seven years. The 2012 Plan permits the issuance of incentive stock options, restricted stock, and other types of awards. Restricted stock grants generally vest five years from the date of grant. Options granted become exercisable in full or in installments pursuant to the terms of each agreement evidencing options granted. The exercise of stock options and issuance of restricted stock and restricted stock units is satisfied by issuing authorized common stock or treasury stock. Grants from this plan are limited to employees who joined Cypress as part of the Ramtron acquisition and employees hired after the acquisition. Shares issued in respect of full-value awards count against the plan's limit as 1.53 shares for every one share actually issued. As of December 30, 2018, 0.2 million stock options or 0.1 million RSUs and RSAs were available for grant under the 2012 Plan.

Employee Stock Purchase Plan ("ESPP"):

The Company's amended and restated Employee Stock Purchase Plan ("ESPP") allows eligible employees to purchase shares of the Company's common stock through payroll deductions. Prior to January 2018, the ESPP provided for consecutive 18 months offering periods composed of three six months exercise periods. Starting in January 2018, offering periods for new participants (and for continuing participants, upon the expiration of their prior offering period) are composed of only one 6-month exercise period. As of the December 31, 2018, purchase date, all 18 months offering periods have concluded. Under the ESPP's terms, at the end of each exercise period shares are purchased by participating employees at a price equal to 85% of the fair market value of the common stock at the commencement of the offering period of which such exercise period is a part or on the last day of such exercise period, whichever is lower. Purchases are limited to 10% of an employee's eligible

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

compensation, subject to a maximum annual employee contribution limit of $21,250. As of December 30, 2018, 1.9 million shares were available for future issuance under the ESPP.

Stock-Based Compensation

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
Cost of revenues	$16,531	$15,605	$17,971
Research and development	35,115	36,804	38,189
Selling, general and administrative	44,319	39,172	42,353
Total stock-based compensation expense	$95,965	$91,581	$98,513

Aggregate cash proceeds from the issuance of shares under the employee stock plans were $40.7 million, $47.2 million and $43.9 million for fiscal 2018, fiscal 2017 and 2016, respectively. As of December 30, 2018 and December 31, 2017 stock-based compensation capitalized in inventories totaled $2.5 million and $3.3 million, respectively.

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
Stock options	$ 96	$ 163	$ 700
Restricted stock units and restricted stock awards	90,655	82,946	85,170
ESPP	5,214	8,472	12,643
Total stock-based compensation expense	$95,965	$91,581	$98,513

During fiscal 2016, the Company, as part of the severance agreement executed with the Company's former CEO and severance agreements with two other executives, accelerated the vesting of certain awards previously granted and modified the vesting conditions. Included in the stock-based compensation expense for the year ended January 1, 2017 is an amount of $4.3 million related to the impact of such modifications.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

The following table summarizes the unrecognized stock-based compensation balance by type of awards as of December 30, 2018:

(in thousands)		Weighted-Average Amortization Period (In years)
Restricted stock units and restricted stock awards	59,046	1.25
Total unrecognized stock-based compensation balance, net of estimated forfeitures	$59,046	1.25

Employee Equity Award Activities

As of December 30, 2018, 38.8 million stock options, or 21.8 million RSUs/PSUs, were available for grant under the 2013 Stock Plan, the 2010 Plan and the 2012 Plan.

The following table summarizes the Company's stock option activities:

	Year Ended					
	December 30, 2018		December 31, 2017		January 1, 2017	
	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share
	(In thousands, except per-share amounts)					
Options outstanding, beginning of year	4,627	$11.63	7,947	$10.70	16,840	$ 7.99
Exercised	(1,547)	$ 9.81	(2,898)	$ 8.80	(8,255)	$ 5.03
Forfeited or expired	(441)	$17.29	(422)	$13.58	(638)	$12.54
Options outstanding, end of year	2,639	$11.75	4,627	$11.63	7,947	$10.70
Options exercisable, end of year	2,612	$11.76	4,340	$11.66	6,736	$10.62

There were no options granted during fiscal years 2018, 2017, and 2016.

The aggregate intrinsic value of the options outstanding and options exercisable as of December 30, 2018 was $4.6 million and $4.5 million respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value which would have been received by the option holders had all option holders exercised their options as of December 30, 2018 and does not include substantial tax payments.

The aggregate intrinsic value of the options outstanding and options exercisable as of December 31, 2017 was $19.2 million and $18.0 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value which would have been received by the option holders had all option holders exercised their options as of December 31, 2017 and does not include substantial tax payments.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

The aggregate pre-tax intrinsic value of option exercises, which represents the difference between the exercise price and the value of Cypress common stock at the time of exercise, was $11.2 million in fiscal 2018, $16.2 million in fiscal 2017 and $46.0 million in fiscal 2016.

The aggregate grant date fair value of the options which vested in fiscal 2018, 2017, and 2016 was $0.8 million, $2.7 million, and $3.5 million, respectively.

The following table summarizes information about options outstanding and exercisable as of December 30, 2018:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares (in thousands)	Weighted-Average Remaining Contractual Life (In years)	Weighted-Average Exercise Price per Share	Shares (in thousands)	Weighted-Average Exercise Price per Share
$3.47 - $11.55	2,198	2.08	$10.57	2,171	$10.57
$12.27 - $16.68	129	2.44	$12.53	128	$12.53
$18.86 - $21.63	266	0.82	$19.08	266	$19.08
$22.88 - $22.88	39	0.11	$22.88	39	$22.88
$23.23 - $23.23	7	0.52	$23.23	7	$23.23
	2,639	1.19	$11.75	2,611	$11.76

The total number of exercisable in-the-money options was 2.3 million shares as of December 30, 2018.

Restricted Stock Units, Performance-Based Restricted Stock Units and Restricted Stock Awards:

The following table summarizes the Company's restricted stock unit, performance-based restricted awards and restricted stock award activities:

	Year Ended					
	December 30, 2018		December 31, 2017		January 1, 2017	
	Shares	Weighted-Average Grant Date Fair Value per Share	Shares	Weighted-Average Grant Date Fair Value per Share	Shares	Weighted-Average Grant Date Fair Value per Share
	(In thousands, except per-share amounts)					
Non-vested, beginning of year	11,976	$12.44	13,780	$11.83	11,053	$13.43
Granted and assumed	6,344	$16.37	6,488	$13.40	11,318	$11.19
Released	(6,601)	$12.92	(6,248)	$12.17	(5,890)	$13.36
Forfeited	(1,544)	$13.49	(2,044)	$12.22	(2,701)	$12.36
Non-vested, end of year	10,175	$14.42	11,976	$12.44	13,780	$11.83

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

During the first quarter of 2018, the Compensation Committee of the Company's Board of Directors approved the issuance of service-based and performance-based restricted stock units under the 2013 Plan as part of the Company's Long-Term Incentive Program ("LTIP") to certain employees. The milestones for the 2018 LTIP grants include service and performance conditions based on revenue growth and profit milestones over the next 3 years. A portion of the LTIP awards include a multiplier based on certain market conditions.

On March 16, 2017, the Compensation Committee of the Company approved the issuance of service-based and performance-based restricted stock units under the Company's Performance Accelerated Restricted Stock ("PARS") program to certain employees. Both PARS and LTIP grants include performance milestones that are tied to the Company's overall financial performance relative to the financial performance of a selected industry index, peer group, and/or internal targets. Awards are granted annually, with each award typically covering several overlapping performance and vesting periods.

With regard to the performance conditions, the fair value of new or modified awards is equal to the grant date fair market value of the Company's common stock, net of the estimated dividend credit. The compensation cost is recognized over the requisite service period when it is probable that the performance condition will be satisfied. For market conditions, the compensation cost is recognized regardless of whether the conditions are satisfied and based on the grant date fair value of new or modified awards using a Monte Carlo simulation valuation model.

The milestones for the 2018 LTI program, as approved by the Compensation Committee, included a service condition and performance conditions linked to the Company's earnings in 2018, profit before tax in 2020 and three year total stockholder return (TSR) over the period 2018-2020.

The milestones for the 2017 PARS program, as approved by the Compensation Committee, included a service condition and performance conditions linked to the Company's total shareholder return (TSR) relative to its peers, achievement of Spansion merger synergies, achievement of non-GAAP earnings per share and margin and certain product development milestones.

The milestones for the 2016 PARS program, as approved by the Compensation Committee, included a service condition and performance conditions related to the Company's TSR relative to its peers, achievement of Spansion merger synergies and achievement of non-GAAP earnings per share.

ESPP:

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

	Year Ended		
ESPP:	**December 30, 2018**	**December 31, 2017**	**January 1, 2017**
Expected life	0.5 - 1.5 years	0.5 - 1.5 years	0.5 - 1.5 years
Volatility	31.94% - 38.13%	34.8% - 38.1%	36.9% - 38.5%
Risk-free interest rate	1.06% - 2.14%	0.65% - 1.28%	0.37% - 0.61%
Dividend yield	2.78% - 3.87%	3.22% - 3.87%	4.1%

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

Expected life: The expected term represents the average term from the first day of the offering period to the purchase date.

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

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

Dividend yield: The expected dividend is based on the Company's history, and expected dividend payouts.

During fiscal 2018, 2017 and 2016, the Company issued 2.3 million, 2.4 million and 1.2 million shares under its ESPP with weighted-average price of $11.24, $8.48 and $8.34 per share, respectively.

NOTE 11. RESTRUCTURING

Since 2016, the Company has launched certain long-term strategic corporate transformation initiatives which required restructuring activities to streamline internal processes and redeploy personnel and resources to target markets as discussed below:

2018 Restructuring Plan

During the first quarter of fiscal 2018, the Company began implementation of a reduction in workforce (the "2018 Plan") which resulted in elimination of approximately 75 positions across various functions. In the third quarter of fiscal 2018, the Company increased the reduction in workforce under the 2018 plan by approximately 50 positions across various functions. The restructuring costs of $4.9 million during the year ended December 30, 2018 consist of personnel costs. The Company anticipates that the remaining restructuring accrual balance of $0.2 million will be paid out in cash through the first quarter of fiscal 2019.

2017 Restructuring Plan

In December 2017, the Company began implementation of a reduction in workforce ("2017 Plan") which resulted in elimination of approximately 80 positions worldwide across various functions. The restructuring charge of $2.4 million during the year ended December 30, 2018 consists of personnel costs. The Company anticipates that the remaining restructuring accrual balance of $30.0 thousand will be paid out in cash through the first quarter of fiscal 2019.

2016 Restructuring Plan

In September 2016, the Company began implementation of a reduction in workforce ("2016 Plan") which resulted in elimination of approximately 430 positions worldwide across various functions. No restructuring costs were recorded during the year ended December 30, 2018 related to this plan. The personnel costs related to the 2016 plan during the year ended December 31, 2017 were $2.6 million. The Company had paid out the remaining restructuring cost of $0.5 million, which consisted of personnel costs, by July 1, 2018.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. RESTRUCTURING (Continued)

Spansion Integration-Related Restructuring Plan

In March 2015, the Company implemented cost reduction and restructuring activities in connection with its merger with Spansion The restructuring charge of $90.1 million recorded for the fiscal year ended January 3, 2016 primarily consists of severance costs, lease termination costs and impairment of property, plant and equipment.

As part of this restructuring plan, the Company exited an office space leased by Spansion and had recorded a reserve related to excess lease obligation for the building. During the fourth quarter of fiscal 2018, the Company signed a termination agreement with the building's owner. The lease termination cost is approximately $19.0 million. The Company had paid out $4.7 million by the end of fiscal 2018 and anticipates paying out the remaining $14.3 million through the end of the first quarter of fiscal 2019.

During fiscal 2016, a release of previously estimated personnel related liability of $0.1 million was recorded. No charges were recorded during fiscal 2017 for the Spansion Integration Plan.

Summary of Restructuring Costs

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(in thousands)		
Personnel Costs	$ 7,085	7,479	$26,131
Lease termination costs and other related charges	9,757	540	—
Other	—	1,069	—
Total restructuring and other charges	$16,842	$9,088	$26,131

The following table summarizes the restructuring costs by line item recorded in the Consolidated Statements of Operations:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(in thousands)		
Cost of revenues	3,271	548	1,420
Research and development	1,786	5,915	15,956
Selling, general and administrative	11,785	2,625	8,755
Total restructuring costs	16,842	9,088	26,131

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. RESTRUCTURING (Continued)

Roll-forward of the restructuring reserves

Restructuring activity under the Company's various restructuring plan was as follows:

	Year Ended December 30, 2018 (In thousands)				
	2018 Plan	2017 Plan	2016 Plan	Spansion Integration plan	Total
Accrued balance as of January 3, 2016	$ —	$ —	$ —	$21,487	$ 21,487
Provision	—	—	26,261	(130)	26,131
Cash payments and other adjustments	—	—	(5,157)	(7,138)	(12,295)
Accrued balance as of January 1, 2017	—	—	21,104	14,219	35,323
Provision	—	6,464	2,624	—	9,088
Cash payments and other adjustments	—	(325)	(22,985)	(2,922)	(26,232)
Accrued balance as of December 31, 2017	—	6,139	743	11,297	18,179
Provision	4,898	2,421	(234)	9,757	16,842
Cash payments and other adjustments	(4,650)	(8,530)	(509)	(6,796)	(20,485)
Accrued balance as of December 30, 2018	$ 248	$ 30	$ —	$14,258	$ 14,536

NOTE 12. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES

The Company enters into multiple foreign exchange forward contracts to hedge certain operational exposures resulting from fluctuations in Japanese yen and Euro exchange rates. The Company does not enter into derivative securities for speculative purposes. The Company's hedging policy is designed to mitigate the impact of foreign currency exchange rate fluctuations on its operating results. Some foreign currency forward contracts are considered to be economic hedges that were not designated as hedging instruments while others were designated as cash flow hedges. Whether designated or non-designated as cash flow hedges, these forward contracts protect the Company against the variability of forecasted foreign currency cash flows resulting from revenues, expenses and net monetary asset or liability positions designated in currencies other than the U.S. dollar. The maximum original duration of any contract allowable under the Company's hedging policy is thirteen months for foreign currency hedging contracts.

Cash Flow Hedges

The Company enters into cash flow hedges to protect non-functional currency inventory purchases and certain other operational expenses, in addition to its on-going program of cash flow hedges to protect its non-functional currency revenues against variability in cash flows due to foreign currency fluctuations. The Company's foreign currency forward contracts that were designated as cash flow hedges generally have tenors between three and thirteen months. All hedging relationships are formally documented, and the hedges are designed to offset changes to future cash flows on hedged transactions at the inception of the hedge. The Company recognizes derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measures them at fair value on a monthly basis. The Company records changes in the intrinsic value of its cash flow hedges in accumulated other

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES (Continued)

comprehensive income on the Condensed Consolidated Balance Sheets, until the forecasted transaction occurs. Prior to the second quarter of 2018, interest charges or "forward points" on the forward contracts are excluded from the assessment of hedge effectiveness and are recorded in interest and other income, net in the Condensed Consolidated Statements of Operations. In the second quarter of 2018, the Company entered into cash flow hedges, in which interest charges or "forward points" on the forward contracts are included in the assessment of hedge effectiveness, and are recorded in the underlying hedged items in the Condensed Consolidated Statements of Operations. When the forecasted transaction occurs, the Company reclassifies the related gain or loss on the cash flow hedge to revenue or costs, depending on the risk hedged. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to interest and other income, net in its Condensed Consolidated Statements of Operations at that time.

The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other income (expense), net in its Consolidated Statements of Operations.

At December 30, 2018, the Company had net outstanding forward contracts to buy ¥5,977 million for $54.4 million. At December 31, 2017, the Company had net outstanding forward contracts to buy ¥3,335 million for $29.8 million.

Designated hedges

Total notional amounts of net outstanding contracts were as summarized below:

Buy / Sell	December 30, 2018	December 31, 2017
	(In millions)	
US dollar / Japanese Yen	$44.5 / ¥4,850	$58.7 / ¥6,476
Japanese Yen / US dollar	¥10,827 / $98.8	¥9,811 / $88.4

Non-designated hedges

Total notional amounts of net outstanding contracts were as summarized below. The duration or each contract is approximately thirty days:

Buy / Sell	December 30, 2018	December 31, 2017
	(In millions)	
US dollar / EUR	$9.1 / €8.0	$8.8 / €7.4
US dollar / Japanese Yen	$13.2 / ¥1,430	$15.9 / ¥1,744
Japanese Yen / US dollar	¥4,210 / $38.0	¥4,790 / $43.0

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES (Continued)

Interest rate swaps

In December 2017, the Company entered into fixed-for-floating interest rate forward swap agreements starting in April 2018 with two counterparties, to swap future variable interest payments on certain debt for fixed interest payments; these agreements will expire in July 2021. The objective of the swaps was to effectively fix the interest rate at current levels without having to refinance the outstanding term loan, thereby avoiding the incurrence of transaction costs. The interest rate on the variable debt was fixed in December 2017 and became effective in April 2018.

On January 3, 2018, the Company evaluated the hedge effectiveness of the interest rate swaps and designated these swaps as hedging instruments. Upon designation as cash flow hedge instruments, future changes in fair value of these swaps are recognized in accumulated other comprehensive income (loss).

In October 2018, the Company entered into fixed-for-floating interest rate forward swap agreements starting in July 2021 with two counterparties to swap future variable interest payments on existing debt for fixed interest payments; these agreements will expire in December 2024. The objective of the swaps was to effectively fix the future interest rate at the level currently available to avoid the uncertainty in financing cost for a portion of debt due to future interest rate fluctuations. The aggregate notional amount of these interest rate swaps was $300 million. The Company has evaluated the hedge effectiveness of the interest rate swaps and has designated these swaps as cash flow hedges of the debt with future changes in fair value of these swaps is recognized in accumulated other comprehensive income (loss).

For fiscal year 2018, the Company has recorded a loss in other comprehensive income of $1.3 million for these interest rate swaps.

The gross asset and liability at fair value was $2.5 million and $4.1 million respectively and the net impact to the Consolidated Statements of Operations was immaterial.

The effect of derivative instruments in the Consolidated Statements of Operations for fiscal 2018 is $0.2 million. There is no effect of derivative instruments in fiscal 2017,

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES (Continued)

The gross fair values of derivative instruments on the Consolidated Balance Sheets as of December 30, 2018 and December 31, 2017 were as follows:

	December 30, 2018		December 31, 2017	
Balance Sheet location	Derivatives designated as hedging instruments	Derivatives not designated as hedging instruments	Derivatives designated as hedging instruments	Derivatives not designated as hedging instruments
	(in thousands)			
Other Current Assets				
Derivative Asset	$2,767	$725	$805	$ 392
Non-current Assets				
Derivative Asset	$1,419	$ —	$ —	$ 607
Other Current Liabilities				
Derivative Liability	$1,210	$411	$775	$1,258
Non-Current Liabilities				
Derivative Liability	4,051	—	—	—

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Accumulated net unrealized income (loss) on cash flow hedges and other	Accumulated unrecognized gain (loss) on the Defined Benefit Plan	Accumulated other comprehensive income (loss)
	(in thousands)		
Balance as of January 1, 2017	$(7,623)	$(1,188)	$(8,811)
Other comprehensive income (loss) before reclassification	511	—	511
Amounts reclassified to other income (expense), net	6,614	—	6,614
Net unrecognized gain (loss) on the defined benefit plan	—	324	324
Balance as of December 31, 2017	(498)	(864)	(1,362)
Other comprehensive income (loss) before reclassification	(644)	—	(644)
Amounts reclassified to operating income	379	—	379
Net unrecognized gain (loss) on the defined benefit plan	—	3,456	3,456
Balance as of December 30, 2018	**$ (763)**	**$ 2,592**	**$ 1,829**

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. OTHER (EXPENSE) INCOME, NET

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
Interest income	$ —	$ 568	$ 1,836
Changes in fair value of investments under the deferred compensation plan	(2,904)	6,087	2,326
Unrealized (loss) gain on marketable securities	—	—	325
Foreign currency exchange and other (losses) gains, net	(340)	(1,838)	(4,251)
(Loss) gain on sale of investments	351	—	(265)
Other	375	(549)	342
Other (expense) income, net	$(2,518)	$ 4,268	$ 313

NOTE 15. DEBT

Debt is comprised of the following:

	December 30, 2018	December 31, 2017
	(in thousands)	
Current portion of long-term debt		
Senior Secured Credit Facility:		
Term Loan B	5,051	27,303
Capital Lease Obligations	1,892	—
Current portion of long-term debt	6,943	27,303
Revolving credit facility and long-term portion of debt		
Senior Secured Credit Facility:		
Revolving Credit Facility	—	90,000
Term Loan B	462,868	468,080
2.0% 2020 Exchangeable Notes	11,438	20,375
4.5% 2022 Senior Exchangeable Notes	256,726	246,636
2.0% 2023 Exchangeable Notes	135,057	131,422
Capital lease obligations	8,146	—
Credit facility and long-term debt	874,235	956,513
Total debt	$881,178	$983,816

Revolving Credit Facility, Term Loan A, Term Loan B

On March 12, 2015, the Company entered into an Amended and Restated Credit and Guaranty Agreement with Morgan Stanley Bank, N.A., as issuing bank, and other lenders (as amended, the "Credit Agreement"). The Credit Agreement establishes a credit facility (the "Credit Facility" or the

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

"Senior Secured Credit Facility") that includes a revolving loan facility (the "Revolving Credit Facility") and provides for the possibility of term loans.

As per the terms of the Credit Agreement, the Company entered into a Joinder Agreement on December 22, 2015 under which the Company borrowed an additional $100 million ("Term Loan A"). Term Loan A was subject to, at the Company's option, either an interest rate equal to (i) 3.25% over LIBOR or (ii) an interest rate equal to 2.25% over the greater of (x) the prime lending rate published by the Wall Street Journal, (y) the federal funds effective rate plus 0.50%, and (z) the LIBOR rate for a one month interest period plus 1%. The Company paid a 1.00% upfront fee in connection with the Term Loan A. Such Term Loan A is payable in quarterly installments equal to 1.25% per quarter for 2016, 1.875% per quarter for 2017 and 2018, and 2.50% per quarter thereafter, with the remaining outstanding principle amount due at final maturity on March 12, 2020. It may be voluntarily prepaid at the Company's option and is subject to mandatory prepayments equal to (i) 50% of excess cash flow, as defined in the agreement, (stepping down to 25% and 0% based on a decrease in total leverage ratio over time) at the end of each fiscal year, (ii) the net cash proceeds from certain asset sales (subject to certain reinvestment rights) and (iii) the proceeds from any debt issuances not otherwise permitted under the Credit Agreement. The Company incurred financing costs of $2.8 million to the lenders of Term Loan A which have been capitalized and recognized as a deduction of the Term Loan A balance in "Credit facility and long term debt" on the Consolidated Balance Sheet. As described below, Term Loan A was extinguished as a separate borrowing on August 18, 2017.

On January 6, 2016, subsequent to fiscal 2015, the Company entered into an Incremental Revolving Joinder Agreement to its existing Credit Agreement to increase the amount of revolving commitments under the Credit Facility by an additional $90 million. The total aggregate amount of revolving commitments under the Credit Facility starting January 6, 2016 is $540 million.

On April 27, 2016, the Company amended and restated the Credit Agreement such that borrowings bear interest, at the Company's option, at an adjusted base rate plus a spread of 1.25%, or an adjusted LIBOR rate plus a spread of 2.25%. The borrowings under the Credit Facility are guaranteed by certain present and future wholly-owned material domestic subsidiaries of the Company (the "Guarantors") and are secured by a security interest in substantially all assets of the Company and the Guarantors. The financial covenants include the following conditions: 1) maximum total leverage ratio of 4.50x through October 2016, 4.25x until January 1, 2017, 4.00x until April 2, 2017 and 3.75x thereafter, and 2) minimum fixed charge coverage ratio of 1.00x. The Company incurred financing costs of $2.6 million related to the Credit Facility which has been capitalized and recognized in other long-term assets on the Consolidated Balance Sheet. These costs will be amortized over the life of the Credit Facility and recorded in "Interest Expense" in the Consolidated Statement of Operations.

On July 5, 2016, the Company entered into a Joinder and Amendment Agreement with the initial incremental term loan lenders party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent. The Joinder Agreement supplements the Company's existing Credit Agreement. The Joinder and Amendment Agreement provides for the incurrence by the Company of an incremental term loan in an aggregate principal amount of $450.0 million ("Term Loan B"). The incurrence of Term Loan B is permitted as an incremental loan under the Credit Agreement and is subject to the terms of the Credit Agreement and to additional terms set forth in the Joinder and Amendment Agreement. Term Loan B will initially bear interest at (i) an adjusted LIBOR rate loan plus an applicable margin of 5.50% or (ii) an adjusted base rate loan plus an applicable margin of

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

4.50%. Following the delivery of a compliance certificate and the financial statements for the period ending the last day of the third Fiscal Quarter of 2016, Term Loan B shall bear interest, at the Company's option, at (i) an adjusted LIBOR rate plus an applicable margin of either 5.25% or 5.50%, or (ii) an adjusted base plus an applicable margin of either 4.25% or 4.50%, with the applicable margin in each case determined based on the Company's total net leverage ratio for the trailing twelve month period ended as of the last day of the Company's most recently ended fiscal quarter. The Company paid an upfront fee to the initial incremental lenders in an amount equal to 1.5% of the aggregate principal amount of the incremental term loan funded. The Company is required to pay a prepayment premium of 1.00% of the principal amount prepaid if it prepays the incremental term loan in certain circumstances prior to the date that is twelve months after the closing date. Term Loan B was fully funded on the closing date and matures on July 5, 2021.The Company incurred financing costs of $11.5 million to the lenders of Term Loan B which has been capitalized and recognized as a deduction of the Term Loan B balance in "Long-term revolving credit facility and long term debt" on the Consolidated Balance Sheets. These costs will be amortized over the life of Term Loan B and recorded in "Interest Expense" in the Consolidated Statements of Operations.

On February 17, 2017, the Company amended its Credit Agreement. The amendment reduced the applicable margins on Term Loan B and Term Loan A from 5.50% and 5.11%, respectively, to 3.75% effective February 17, 2017. Additionally, the amended financial covenants include the following conditions: 1) maximum total leverage ratio of 4.25 to 1.00 through December 31, 2017 and 2) maximum total leverage ratio of 4.00 to 1.00 through July 1, 2018 and 3.75 to 1.00 thereafter. The Company incurred financing costs of $5.9 million to lenders of the term loans which were capitalized and recognized as a reduction of the Term Loan A and Term Loan B balances in "Credit facility and long term debt" on the Consolidated Balance Sheets. These costs will be amortized over the life of the term loans and are recorded in "Expense" in the Consolidated Statements of Operations.

On April 7, 2017, the Company amended its Credit Agreement. The amendment reduced the applicable margins on the Company's Term Loan A from 3.75% to 2.75% effective April 7, 2017. The Company incurred financing costs of $0.4 million to lenders of Term Loan A which were recognized as a reduction of the Term Loan A balance in "Long-term credit facility and long term debt" in the Consolidated Balance Sheets.

On August 18, 2017, the Company amended its Credit Agreement. As a result of the amendment, Term Loan A borrowing of $91.3 million was extinguished as a separate borrowing. Term Loan B was increased by $91.3 million to replace Term Loan A (the "Additional Incremental Term Loan"). Previously unamortized debt issuance costs of $3.0 million related to Term Loan A were written off and recorded as "Interest expense" in the Consolidated Statements of Operations in fiscal 2017. The additional incremental term loan is subject to the terms of the Credit Agreement and the additional terms set forth in the amendment. The amendment also reduced the applicable margins on Term Loan B from 3.75% to 2.75% effective August 18, 2017. The Company incurred financing costs of $0.6 million to the lenders of the term loans which have been capitalized and recognized as a reduction of the Term Loan B balances in "Credit facility and long term debt" on the Consolidated Balance Sheets. These costs will be amortized over the life of the term loans and are recorded in "Interest Expense" on the Consolidated Statements of Operations.

On March 12, 2018, the Company amended its Credit Agreement. The amendment reduces the applicable margins on the Revolving Credit Facility and Term Loan B. After giving effect to the

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

amendment, the Term Loan B bore interest, at the option of the Company, at the base rate plus an applicable margin of 1.25% or the Eurodollar rate plus an applicable margin of 2.25%; and the Revolving Credit Facility bears interest, at the option of the Company, at the base rate plus an applicable margin of either 0.75% or 1.00%, depending on the Company's secured leverage ratio, or the Eurodollar rate plus an applicable margin of 1.75% or 2.00%, depending on the Company's secured leverage ratio. The amendment removed the fixed charge coverage ratio financial covenants. In addition, for Term Loan B, the amendment removed the total leverage ratio covenant, changed the required amortization payments to 1% per annum, and waived the excess cash flow mandatory repayment for fiscal 2017.

On September 13, 2018, the Company again amended its Credit Agreement. The amendment reduces the applicable margin for Term Loan B. After giving effect to the amendment, Term Loan B will bear interest, at the option of the Company, at the base rate plus an applicable margin of 1.00% or the Eurodollar rate plus an applicable margin of 2.00%. As part of the transaction, the Company repaid $25.0 million of outstanding Term Loan B principal.

Interest expenses related to the contractual interest expenses, the amortization of debt issuance costs and the amortization of debt discounts were $34.3 million, $45.2 million and $35.9 million during the fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017.

As of December 30, 2018, $476.3 million aggregate principal amount of loan, which is related to Term Loan B, is outstanding under the Credit Facility.

As of December 30, 2018, the Company was in compliance with all of the financial covenants under the Credit Facility.

2% 2020 Spansion Exchangeable Notes

Pursuant to its merger with Spansion, Cypress assumed Spansion's outstanding 2% 2020 Spansion Exchangeable Notes ("Spansion Notes" or the "2.0% 2020 Exchangeable Notes") on March 12, 2015. The Spansion Notes are governed by a Supplemental Indenture, dated March 12, 2015, between the Company, Spansion and Wells Fargo Bank, National Association, as Trustee. They are fully and unconditionally guaranteed on a senior unsecured basis by the Company. The Spansion Notes will mature on September 1, 2020, unless earlier repurchased or converted, and bear interest of 2% per year payable semi-annually in arrears on March 1 and September 1, commencing on March 1, 2014. The Spansion Notes may be due and payable immediately in certain events of default.

As of December 30, 2018, the Spansion Notes are exchangeable for 203.87 shares of common stock per $1,000 principal amount of the Spansion Notes (equivalent to an exchange price of $4.91) subject to adjustments for dividends, anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company's stock and liquidation, consolidation or merger of the Company. According to the Indenture, a change in control occurs when a person or group becomes the beneficial owner directly or indirectly, of more than 50% of the Company's common stock. In the case of a consolidation or merger, if the surviving entity continues to be listed, no change of control will be triggered. Prior to June 1, 2020, the Spansion Notes will be exchangeable under certain specified circumstances as described in the Indenture.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of our common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is the Company's intent that upon conversion, the Company would pay the holders of the Spansion Notes cash for an amount up to the aggregate principal amount of the Spansion Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount ("conversion spread"). Accordingly, for the purposes of calculating of diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the Notes intended to be settled in cash. The conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

On November 1, 2017, the Company entered into a privately negotiated agreement to induce the extinguishment of a portion of the Spansion Notes. The Company paid the holders of the Spansion Notes cash for the aggregate principal of $128 million and delivered 17.3 million shares of common stock for the conversion spread. The Company recorded $4.3 million in loss on extinguishment, which included $1.2 million paid in cash as an inducement premium and a reduction in additional paid-in capital of $290.6 million towards the deemed repurchase of the equity component of the notes. The loss on extinguishment is recorded in "Other income (expense), net" in the Consolidated Statement of Operations. See *Note 14* of the Notes to Consolidated Financial Statements for further details.

On March 7, 2018, the Company entered into a privately negotiated agreement to induce the extinguishment of $10 million of the remaining $22 million of Spansion Notes outstanding. The Company paid the holders of the Spansion Notes cash for the aggregate principal of $10 million and delivered 1.4 million shares of common stock for the conversion spread. The Company recorded $0.2 million in loss on extinguishment and a reduction in additional paid-in capital of $25.7 million towards the deemed repurchase of the equity component of the notes. The loss on extinguishment is recorded in "Interest Expense" in the Consolidated Statements of Operations.

The following table presents the interest expense recognized on the Spansion Notes during the fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017 (in thousands):

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Contractual interest expense at 2% per annum	$242	$2,880	$2,989
Accretion of debt discount	329	3,149	3,556
Total	$571	$6,029	$6,545

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

The 2% 2020 Exchangeable Notes consisted of the following as of December 30, 2018 and December 31, 2017 (in thousands):

	December 30, 2018	December 31, 2017
Equity component(1)	$22,971	$42,130
Liability component:		
Principal	$11,990	$21,990
Less debt discount, net(2)	(552)	(1,615)
Net carrying amount	$11,438	$20,375

(1) Included on the consolidated balance sheets within additional paid-in-capital

(2) Included on the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 2% 2020 Exchangeable Notes.

4.5% 2022 Senior Exchangeable Notes

On June 23, 2016, the Company issued $287.5 million of Senior Exchangeable Notes due in 2022 (the "4.5% 2022 Senior Exchangeable Notes") at face value in a private placement to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 4.5% 2022 Senior Exchangeable Notes are governed by an Indenture ("2016 Indenture"), dated June 23, 2016, between the Company and U.S. Bank National Association, as Trustee. The 4.5% 2022 Senior Exchangeable Notes will mature on January 15, 2022, unless earlier repurchased or converted, and bear interest of 4.50% per year payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2017. The 4.5% 2022 Senior Exchangeable Notes may be due and payable immediately in certain events of default.

The 4.5% 2022 Senior Exchangeable Notes are exchangeable for an initial exchange rate of 74.14 shares of common stock per $1,000 principal amount of the 4.5% 2022 Senior Exchangeable Notes (equivalent to an initial exchange price of approximately $13.49 per share) subject to adjustments for anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company's stock and liquidation, consolidation or merger of the Company. Prior to October 15, 2021, the Notes will be exchangeable under certain specified circumstances as described in the 2016 Indenture. On or after October 15, 2021, until the close of business on the second scheduled trading day immediately preceding the maturity date, the 4.5% 2022 Senior Exchangeable Notes will be convertible in multiples of $1,000 principal amount regardless of the foregoing circumstances.

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is the Company's intent that upon conversion, the Company would pay the holders of the 4.5% 2022 Senior Exchangeable Notes cash for an amount up to the aggregate principal amount of the 4.5%

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

2022 Senior Exchangeable Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount ("conversion spread"). Accordingly, for the purposes of calculating diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the 4.5% 2022 Senior Exchangeable Notes intended to be settled in cash. The conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

At the debt issuance date, the 4.5% 2022 Senior Exchangeable Notes, net of issuance costs, consisted of the following (in thousands):

	June 23, 2016
Liability component	
Principal	$238,338
Less: Issuance cost	(7,158)
Net carrying amount	$231,180
Equity component	
Allocated amount	$ 49,163
Less: Issuance cost	(1,477)
Net carrying amount	$ 47,686
Exchangeable Notes, net of issuance costs	$278,866

The following table includes total interest expense related to the 4.5% 2022 Senior Exchangeable Notes recognized during the fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017 (in thousands):

	Year ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Contractual interest expense	$12,902	$13,009	$ 6,900
Amortization of debt issuance costs	1,278	1,289	700
Accretion of debt discount	8,811	8,885	4,646
Total	$22,991	$23,183	$12,246

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

The 4.5% 2022 Senior Exchangeable Notes consisted of the following as of December 30, 2018 and December 31, 2017 (in thousands):

	December 30, 2018	December 31, 2017
Equity component(1)	$ 47,686	$ 47,686
Liability component:		
Principal	$287,500	$287,500
Less debt discount and debt issuance costs, net(2)	(30,774)	(40,864)
Net carrying amount	$256,726	$246,636

(1) Included in the consolidated balance sheets within additional paid-in-capital.

(2) Included in the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 4.5% 2022 Exchangeable Notes.

Capped Calls, 4.5% 2022 Senior Exchangeable Notes

In connection with the issuance of the 4.5% 2022 Senior Exchangeable Notes, the Company entered into capped call transactions with certain bank counterparties to reduce the risk of potential dilution of the Company's common stock upon the exchange of the 4.5% 2022 Senior Exchangeable Notes. The capped call transactions have an initial strike price of approximately $13.49 and an initial cap price of approximately $15.27, in each case, subject to adjustment. The capped calls are intended to reduce the potential dilution and/or offset any cash payments the Company is required to make upon conversion of the 4.5% 2022 Senior Exchangeable Notes if the market price of the Company's common stock is above the strike price of the capped calls. If, however, the market price of the Company's common stock is greater than the cap price of the capped calls, there would be dilution and/or no offset of such potential cash payments, as applicable, to the extent the market price of the common stock exceeds the cap price. The capped calls expire in January 2022.

2.0% 2023 Exchangeable Notes

On November 6, 2017, the Company, issued at face value, $150.0 million of Senior Exchangeable Notes due in 2023 (the "2% 2023 Exchangeable Notes") in a private placement to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 2% 2023 Exchangeable Notes are governed by an Indenture ("2017 Indenture"), dated November 6, 2017, between the Company and U.S. Bank National Association, as Trustee. The 2% 2023 Exchangeable Notes will mature on February 1, 2023 unless earlier repurchased or converted, and bear interest of 2% per year payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2018. The 2% 2023 Exchangeable Notes may be due and payable immediately in certain events of default.

The 2% 2023 Exchangeable Notes are exchangeable at an initial exchange rate of 46.7099 shares of common stock per $1,000 principal amount of the 2% 2023 Exchangeable Notes (equivalent to an initial exchange price of approximately $21.41 per share) subject to adjustments for anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

change in control, delisting of the Company's stock and liquidation, consolidation or merger of the Company. Prior to November 1, 2022, the 2% 2023 Exchangeable Notes will be exchangeable under certain specified circumstances as described in the 2017 Indenture. On or after November 1, 2022, until the close of business on the second scheduled trading day immediately preceding the maturity date, the 2% 2023 Exchangeable Notes will be convertible in multiples of $1,000 principal amount regardless of the foregoing circumstances.

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is the Company's intent that upon conversion, the Company would pay the holders of the 2% 2023 Exchangeable Notes cash for an amount up to the aggregate principal amount of the Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount ("conversion spread"). Accordingly, for the purposes of calculating diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the Notes that are intended to be cash settled. The conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company separated the 2% 2023 Exchangeable Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. Such amount was based on the contractual cash flows discounted at an appropriate market rate for non-convertible debt at the date of issuance, which was determined to be 89.7% of the par value of the 2% 2023 Exchangeable Notes or $134.6 million. The carrying amount of the equity component of $15.5 million representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Exchangeable Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is accreted to interest expense over the term of the 2% 2023 Exchangeable Notes using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company incurred transaction costs of approximately $4.1 million relating to the issuance of the 2% 2023 Exchangeable Notes. The transaction costs of $4.1 million include $3.4 million of financing fees paid to the initial purchasers of the 2% 2023 Exchangeable Notes, and other estimated offering expenses payable by the Company. In accounting for these costs, the Company allocated the costs of the offering in proportion to the fair value of the debt and equity recognized in accordance with the accounting standards. The transaction costs allocated to the debt component of approximately $3.7 million are being amortized as interest expense over the term of the 2% 2023 Exchangeable Notes using the effective yield method. The transaction costs allocated to the equity component of approximately $0.4 million were recorded as a reduction of additional paid-in capital.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

At the debt issuance date, the 2% 2023 Exchangeable Notes, net of issuance costs, consisted of the following (in thousands):

	November 6, 2017
Liability component	
Principal	$134,550
Less: Issuance cost	(3,678)
Net carrying amount	$130,872
Equity component	
Allocated amount	$ 15,450
Less: Issuance cost	(422)
Net carrying amount	$ 15,028
Exchangeable Notes, net of issuance costs	$145,900

The following table includes total interest expense related to the 2% 2023 Exchangeable Notes recognized during the fiscal years ended December 30, 2018 and December 31, 2017 (in thousands):

	Year ended December 30, 2018	Year ended December 31, 2017
Contractual interest expense	$2,992	$ 452
Amortization of debt issuance costs	700	106
Accretion of debt discount	2,940	444
Total	$6,632	$1,002

The 2% 2023 Exchangeable Notes consisted of the following as of December 30, 2018 and December 31, 2017 (in thousands):

	December 30, 2018	December 31, 2017
Equity component(1)	$ 15,028	$ 15,028
Liability component:		
Principal	$150,000	$150,000
Less debt discount and debt issuance costs, net(2)	(14,943)	(18,578)
Net carrying amount	$135,057	$131,422

(1) Included in the consolidated balance sheets within additional paid-in-capital.

(2) Included in the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 2% 2023 Exchangeable Notes.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT (Continued)

Capital Leases and Equipment Loans

The Company has had capital lease arrangements related to certain equipment at its Austin manufacturing facility which expire in 2024. In June 2018, the Company entered into a capital lease agreement for manufacturing equipment. The lease has a term of 5 years through June 2023. As of December 30, 2018, the Company recorded a capital lease obligation of approximately $10.0 million.

Future Debt Payments

The future scheduled principal payments for the outstanding Company's debt as of December 30, 2018 were as follows (in thousands):

Fiscal Year	Total
2019	$ 6,738
2020	18,747
2021	467,899
2022	289,275
2023	151,738
Thereafter	1,441
Total	$935,838

NOTE 16. EQUITY TRANSACTIONS

$450 million Stock Buyback Program:

On October 20, 2015, the Company's Board authorized a $450 million stock buyback program. The program allows the Company to purchase its common stock or enter into equity derivative transactions related to its common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of the Company's common stock, regulatory, legal, and contractual requirements, alternative uses of cash, availability of on shore cash and other market factors. The program does not obligate the Company to repurchase any particular amount of common stock and may be modified or suspended at any time at the Company's discretion. Under the program through the end of fiscal 2018, the Company used $274.1 million to repurchase 31.8 million shares at an average price of $8.62.

Yield Enhancement Program:

In fiscal 2009, the Audit Committee approved a yield enhancement strategy intended to improve the yield on the Company's available cash. As part of this program, the Audit Committee authorized the Company to enter into short-term yield enhanced structured agreements, typically with maturities of 90 days or less, correlated to the Company's stock price. Under the agreements that the Company has entered into to date, it pays a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of the Company's common stock depending on the closing market price of the Company's common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of the Company's common stock is above the pre-determined price, the Company will have its cash investment returned plus a yield substantially above the yield currently available for short-term cash

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16. EQUITY TRANSACTIONS (Continued)

investments. If the closing market price is at or below the pre-determined price, the Company will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on the Company's stock price and does not require the Company to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

The Company had no activity related to yield enhanced structured agreements during fiscal 2017. The following table summarizes the activity of the Company's settled yield enhanced structured agreements during fiscal 2018:

Fiscal 2018:	Aggregate Price Paid	Total Number of Shares Received Upon Maturity	Average Price Paid per Share
	(in thousands, except per share amounts)		
Settled through issuance of common stock	$3,262	250	$13
Total for fiscal 2018	$3,262	250	$13

Dividends

During fiscal 2018, the Company paid total cash dividends of $157.4 million consisting of dividends of $0.11 per share of common stock paid in all four quarters of the fiscal year. On November 5, 2018, the Company's Board declared a cash dividend of $0.11 per share payable to holders of record of the Company's common stock at the close of business day on December 27, 2018. This cash dividend was paid on January 17, 2019 and totaled $39.7 million.

During fiscal 2017, the Company paid total cash dividends of $144.7 million, consisting of dividends of $0.11 per share of common stock paid in each of the quarters of the fiscal year.

During fiscal 2016, the Company paid total cash dividends of $141.4 million, consisting of dividends of $0.11 per share of common stock paid in each of the quarters of the fiscal year.

NOTE 17. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company purchases from, or sells to (a) entities for which one of the Company's directors or executive officers serves as a director or (b) entities that are otherwise affiliated with one of the Company's directors or executive officers (collectively, "related parties").

For the indicated periods, the following table presents information on the Company's transactions with such entities occurring at a time when the entity was a related party of the Company.

	Year ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(in thousands)		
Total revenues	$ 224	$ 4,713	$2,965
Total purchases	$12,995	$54,236	$7,936

Form 10-K

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17. RELATED PARTY TRANSACTIONS (Continued)

As of December 30, 2018 and December 31, 2017, amounts due from these parties totaled $0.1 million and $4.8 million, respectively, and amounts due to these parties totaled $1.9 million and $9.9 million, respectively.

NOTE 18. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average common shares outstanding during the period. Diluted net income per share is computed using the weighted-average common shares outstanding and any dilutive potential common shares. Diluted net loss per common share is computed using the weighted-average common shares outstanding. This computation excludes all dilutive potential common shares when the Company is in a net loss position as their inclusion would be anti-dilutive. The Company's dilutive securities primarily include stock options, restricted stock units, ESPP purchase rights, and the exchangeable notes.

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands, except per-share amounts)		
Net Income (Loss) per Share—Basic:			
Net (loss) attributable to Cypress for basic and diluted computation	$354,592	$(80,915)	$(683,234)
Weighted-average common shares for basic computation	359,324	333,451	319,522
Net (loss) per share—basic	$ 0.99	$ (0.24)	$ (2.14)
Net (Loss) per Share—Diluted:			
Net income (loss) attributable to Cypress for diluted computation	$354,592	$(80,915)	$(683,234)
Weighted-average common shares for basic computation	359,324	333,451	319,522
Effect of dilutive securities:			
Stock options, restricted stock units, ESPP purchase rights, exchangeable notes, and other	12,854	—	—
Weighted-average common shares for diluted computation	372,178	333,451	319,522
Net income (loss) per share—diluted	$ 0.95	$ (0.24)	$ (2.14)

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. NET INCOME (LOSS) PER SHARE (Continued)

Anti-Dilutive Securities:

The following securities calculated on a weighted average basis were excluded from the computation of diluted net income (loss) per share as their impact was anti-dilutive:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(in thousands)	
Stock options and restricted stock units	693	8,375	6,226
Exchangeable Notes	2,464	17,732	13,844

NOTE 19. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company sponsors defined benefit pension plans covering employees in India, Japan, Philippines, South Korea, Taiwan and Thailand. The Company does not have defined-benefit pension plans for its United States-based employees. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of each country's plan. The funding policy is consistent with the local requirements of each country.

As of December 30, 2018 and December 31, 2017, projected benefit obligations, net of plan assets totaled $13.4 million and $15.5 million, respectively, and the fair value of plan assets was $3.1 million and $2.7 million, respectively.

Cypress Incentive Plan

The Company has an employee incentive plan, which provides for cash incentive payments to certain employees including all named executive officers. Payments under the plan are determined based upon certain performance measures, including the Company's revenue and pre-bonus pre-tax profit margin as well as the achievement of strategic, operational and financial goals established for each employee. The Company recorded total charges of approximately $59.8 million under the plan in fiscal 2018.

Deferred Compensation Plans

The Company has deferred compensation plans, which provides certain key employees, including its executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-deferred basis. The Company does not make contributions to the deferred compensation plans or guarantee returns on the investments. Participant deferrals and investment gains and losses remain the Company's assets and are subject to claims of general creditors.

Under the deferred compensation plans the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income. As of December 30, 2018 and December 31, 2017, the fair value of the assets was $44.4 million and $49.5 million, respectively, and the fair value of the liabilities was $44.8 million and $50.6 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. EMPLOYEE BENEFIT PLANS (Continued)

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(in thousands)		
Changes in fair value of assets recorded in:			
Other income (expense), net	$(2,904)	$ 6,087	$ 2,326
Changes in fair value of liabilities recorded in:			
Cost of revenues	168	(602)	(288)
Research and development expenses	971	(2,826)	(884)
Selling, general and administrative expenses	1,036	(3,936)	(1,889)
Total expense, net	$ (729)	$(1,277)	$ (735)

401(k) Plan

The Company sponsors a 401(k) plan which provides participating employees with an opportunity to accumulate funds for retirement on a tax deferred basis. As of December 30, 2018, the Company matches contribution equal to 50% of the first $2,000 that each employee contributes to the Plan for both pre-tax and Roth deferrals. Effective December 31, 2018, the Company has increased the employer's matching contribution to 50% of the first $4,000 that each employee contributes to the Plan for both pre-tax and Roth deferrals.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
United States loss	$(98,546)	$(108,146)	$(786,610)
Foreign income	137,520	38,388	105,992
Income (loss) before income taxes	38,974	(69,758)	(680,618)
Income tax benefit (provision):			
Current tax benefit (expense):			
Federal	(3,859)	(1,358)	(1,144)
State	(372)	(125)	204
Foreign	(20,498)	(15,081)	(926)
Total current tax benefit (expense)	(24,729)	(16,564)	(1,866)
Deferred tax benefit (expense):			
Federal	334,453	4,341	(556)
State	5,236	(67)	(31)
Foreign	658	1,133	(163)
Total deferred tax benefit (expense)	340,347	5,407	(750)
Income tax benefit (provision)	$315,618	$ (11,157)	$ (2,616)

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

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Benefit (provision) at U.S. statutory rate (21% for 2018, 35% for 2017 and 2016)	$ (8,185)	$ 24,415	$ 238,216
Valuation allowance release (excluding rate items below)	363,057	—	—
Foreign income at other than U.S. rates	(14,279)	(67,685)	(36,552)
Future benefits not recognized(1)	(4,475)	23,978	(37,033)
Goodwill and asset impairment	(26,478)	—	(181,987)
Reversal of previously accrued taxes	—	1,447	13,371
Foreign withholding taxes	(2,168)	(3,718)	(2,018)
State income taxes, net of federal benefit	(372)	(192)	(87)
Tax credit(1)	10,129	11,421	7,826
Other, net	(1,611)	(823)	(4,352)
Income tax benefit (provision)	$315,618	$(11,157)	$ (2,616)

(1) Certain balances included on the Income tax benefit (provision) for prior periods have been reclassified to conform to the current period presentation.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES (Continued)

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

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
Deferred tax assets:		
Credits and net operating loss carryovers	$ 429,800	$ 460,329
Reserves and accruals	82,990	92,655
Excess of book over tax depreciation	5,614	11,744
Deferred income	34,347	39,367
Total deferred tax assets	552,751	604,095
Less valuation allowance	(158,535)	(513,191)
Deferred tax assets, net	394,216	90,904
Deferred tax liabilities:		
Foreign earnings and others	(7,396)	(68,013)
Intangible assets arising from acquisitions	(47,141)	(24,477)
Total deferred tax liabilities	(54,537)	(92,490)
Net deferred tax assets	$ 339,679	$ (1,586)

The Company has the following tax loss and credit carryforwards available to offset future income tax liabilities:

Carryforward	Amount ($ in millions)	Expiration Date
Federal net operating loss carryforward	$968	2025 - 2037
Federal research credit carryforward	$117	2019 - 2038
International foreign tax credit carryforward	$ 12	2019 - 2023
State research credit carryforward	$104	Indefinite
State net operating loss carryforward	$304	2019 - 2037
State research credit carryforward	$ 3	2019 - 2038

The federal and state net operating loss carryforward is subject to limitations under Internal Revenue Code Section 382.

The Company recorded an income tax benefit of $315.6 million in 2018, an income tax expense of $11.2 million in 2017, and an income tax expense of $2.6 million in 2016. The tax benefit for 2018 was more favorable than the tax provision to be expected based on the federal statutory rate primarily due to the release of valuation allowance against certain U.S. deferred tax assets. The income tax expenses for fiscal 2017 and 2016 were primarily attributable to income taxes associated with our non-U.S. operations, primarily offset by release of previously accrued taxes related to the lapsing of statutes of limitation.

A valuation allowance is established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of the deferred tax assets will not be realized. The Company regularly assesses our valuation allowance against deferred tax assets on a

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES (Continued)

jurisdiction by jurisdiction basis. The Company considers all available positive and negative evidence, including future reversals of temporary differences, projected future taxable income, tax planning strategies and recent financial results. During the fourth quarter of 2018, the Company emerged from a cumulative loss position over the previous three years. The cumulative three-year pre-tax income is considered positive evidence which is objective and verifiable and thus received significant weighting. The continued pattern of income before tax, recent global restructuring executed in fiscal 2018 and projected future operating income in the U.S. was additional positive evidence. As a result, the Company released $343.3 million of the valuation allowance attributable to certain U.S. deferred tax assets during 2018. Please refer to Schedule II for the adjustments to valuation allowance balances.

As of December 30, 2018, for certain federal and state attributes, a valuation allowance of $158.5 million has been recorded for the portion that is not more likely than not to be realized. As of December 31, 2017, of the total deferred tax assets of $604.1 million, a valuation allowance of $513.2 million had been recorded for the portion which was not more likely than not to be realized, based upon the Company's evaluation at the time. The Company will continue to evaluate all evidence in future periods to determine if a further release of the valuation allowance is warranted

The Company's global operations involve manufacturing, research and development, and selling activities. The Company's operations outside the U.S. are in certain countries that impose a statutory tax rate lower than the U.S. The Company's foreign operation is subject to tax holidays in Malaysia and Thailand where it manufactures and designs certain products. These tax holidays are scheduled to expire at varying times within the next five years. The Company's tax benefit of these tax holidays for the year ended December 30, 2018 had an insignificant impact on earnings per share.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES (Continued)

Unrecognized Tax Benefits

The following table is a reconciliation of unrecognized tax benefits:

	(In thousands)
Unrecognized tax benefits, as of January 3, 2016	$114,843
Decrease related to lapsing of statute of limitation	(7,190)
Increase based on tax positions related to current year	5,639
Increases in balances related to tax positions taken during prior periods	33,032
Unrecognized tax benefits, as of January 1, 2017	$146,324
Decrease related to lapsing of statute of limitation	(1,108)
Increase based on tax positions related to current year	4,475
Increases in balances related to tax positions taken during prior periods	1,631
Decrease in balances due to the Tax Reform corporate tax rate change from 35% to 21%	(36,087)
Unrecognized tax benefits, as of December 31, 2017	$115,235
Decrease related to partial settlements with taxing authorities	$ (358)
Increase based on tax positions related to current year	$ 4,270
Increases in balances related to tax positions taken during prior periods	$ 2,729
Unrecognized tax benefits, as of December 30, 2018	$121,876

Gross unrecognized tax benefits increased by $6.6 million during fiscal year 2018, resulting in gross unrecognized tax benefits of $121.9 million as of December 30, 2018.

During fiscal year 2018, the Company recognized $0.4 million of previously unrecognized tax benefits as a result of either the expiration of the statute of limitations for certain audit periods or settlement with taxing authorities.

The Company recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes line in the accompanying consolidated statements of operations. The Company recognized approximately $2.4 million of benefit related to interest and penalties in fiscal year 2018. Accrued interest and penalties are included within other long-term liabilities in the consolidated balance sheets. As of December 30, 2018 and December 31, 2017, the combined amount of cumulative accrued interest and penalties was approximately $13.0 million and $11.0 million, respectively.

As of December 30, 2018 and December 31, 2017, the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate totaled $65.8 million and $28.9 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES (Continued)

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

- completion of examinations by the U.S. or foreign taxing authorities; and
- expiration of statutes of limitations on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. The Company regularly assesses its tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which it does business. The Company believes it is reasonably possible that it may recognize up to approximately $3.2 million of its existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of agreements with domestic and various foreign tax authorities.

Classification of Interest and Penalties

The Company's policy is to classify interest expense and penalties, if any, as components of income tax provision in the Consolidated Statements of Operations. As of December 30, 2018 and December 31, 2017, the amount of accrued interest and penalties totaled $13.0 million and $11.0 million, respectively. The Company recorded a charge or (benefit) from interest and penalties of $2.4 million, $2.2 million and $(3.4) million during fiscal 2018, 2017 and 2016, respectively.

Tax Examinations

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of December 30, 2018:

Tax Jurisdictions	Tax Years
United States	2009 and onward
California	2010 and onward
Philippines	2014 and onward
Israel	2014 and onward
India	2004 and onward
Thailand	2011 and onward
Malaysia	2003 and onward
Switzerland	2008 and onward
Japan	2011 and onward

Income tax examinations of the Company's Malaysian subsidiary for the fiscal years 2003 to 2013 and our Philippine subsidiary for fiscal year 2014 are in progress. The Company does not believe the ultimate outcome of these examinations will result in a material increase to its tax liability.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code effective for tax years beginning after December 31, 2017. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21%, the repeal of corporate alternative minimum tax, the transition of U.S. international taxation from a

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. INCOME TAXES (Continued)

worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company recorded a provisional tax benefit of $8.6 million in the fourth quarter of 2017, the period in which the legislation was enacted. In the fourth quarter of 2018, the Company completed its accounting for the effects of the Act within the measurement period under SAB 118. There were no material adjustments to the provisional tax benefit recorded in the fourth quarter of 2017.

The Company has not provided the U.S. income taxes and foreign withholding taxes on a cumulative total of $9.9 million of undistributed earnings for non-U.S. subsidiaries as of December 30, 2018, because such earnings are intended to be indefinitely reinvested. Income taxes and foreign withholding taxes associated with these undistributed earnings are not significant.

NOTE 21. COMMITMENTS AND CONTINGENCIES

Product Warranties

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

The following table presents warranty reserve activities:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
	(In thousands)		
Beginning balance	$ 4,445	$ 3,996	$ 4,096
Provisions & prior warranty estimates	5,325	2,947	5,261
Settlements made	(5,788)	(2,498)	(5,361)
Ending balance	$ 3,982	$ 4,445	$ 3,996

Operating Lease Commitments

The Company leases certain facilities and equipment under non-cancelable operating lease agreements that expire at various dates through fiscal 2026. Some leases include renewal options, which would permit extensions of the expiration dates at rates approximating fair market rental values.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21. COMMITMENTS AND CONTINGENCIES (Continued)

As of December 30, 2018, future minimum lease payments under non-cancelable operating leases were as follows:

Fiscal Year	(In thousands)
2019	$29,315
2020	12,860
2021	8,176
2022	6,241
2023	2,476
Thereafter	3,808
Total	$62,876

Restructuring accrual balances related to operating facility leases were $14.3 million and $11.5 million as of December 30, 2018 and December 31, 2017, respectively.

Contractual Obligations

The Company has entered into agreements with certain vendors that include "take or pay" terms. Take or pay terms obligate the Company to purchase a minimum required amount or services or make specified payments in lieu of such purchase. The Company may not be able to consume minimum commitments under these take or pay terms, requiring payments to vendors, which may have a material adverse impact on the Company's Consolidated Statements of Operations.

Litigation and Asserted Claims

The Company is currently involved in various legal proceedings, claims, and disputes arising in the ordinary course of business, including intellectual property claims and other matters.

For many legal matters, particularly those in early stages, the Company cannot reasonably estimate the possible loss (or range of loss), if any. The Company records an accrual for legal matters at the time or times it determines that a loss is both probable and reasonably estimable. Amounts accrued as of December 30, 2018 were not material. Regarding matters for which no accrual has been made (including the potential for losses in excess of amounts accrued), the Company currently believes, based on its own investigations, that any losses (or ranges of losses) that are reasonably possible and estimable will not, in the aggregate, have a material adverse effect on its financial position, results of operations, or cash flows. However, the ultimate outcome of legal proceedings involves judgments, estimates, and inherent uncertainties and cannot be predicted with certainty. Should the ultimate outcome of any legal matter be unfavorable, the Company's business, financial condition, results of operations, or cash flows could be materially and adversely affected. The Company may also incur substantial legal fees, which are expensed as incurred, in defending against legal claims.

Indemnification Obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify other parties to such agreements with respect to certain matters. Typically, these obligations arise in the context of contracts that the Company has entered into, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21. COMMITMENTS AND CONTINGENCIES (Continued)

representations and covenants or terms and conditions related to such matters as the sale and/or delivery of its products, title to assets sold, certain intellectual property claims, defective products, specified environmental matters and certain income taxes. With respect to the sale of a manufacturing facility or subsidiary business, such indemnification may also cover tax matters and the Company's management of the facility or business prior to the sale. In the foregoing circumstances, payment by the Company is customarily conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims and vigorously defend itself and the other party against related third-party claims. Further, the Company's obligations under these agreements may be limited in terms of time, amount or the scope of its responsibility and in some instances, the Company may have recourse against third parties for certain payments made under these agreements.

It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments the Company has made under these agreements have not had a material effect on the Company's business, financial condition or results of operations. As of December 30, 2018, management believes that if the Company were to incur a loss (in excess of amounts already recognized) in any of these matters, such loss would not have a material effect on its business, financial condition, cash flows or results of operations, though there can be no assurance in this regard.

NOTE 22. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

The Company designs, develops, manufactures and markets a broad range of high-performance solutions for embedded systems, from automotive, industrial and networking platforms to interactive consumer devices

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker ("CODM") is considered to be the Chief Executive Officer.

The Company's segments are its Microcontroller and Connectivity Division (or MCD) and its Memory Products Division (or MPD).

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION (Continued)

Income (Loss) from Operations before Income Taxes:

	Year Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
		(In thousands)	
Microcontroller and Connectivity Division	$ 149,347	$ 56,314	$ (12,674)
Memory Products Division	375,123	279,129	192,066
Unallocated items:			
Stock-based compensation expense	(95,965)	(91,581)	(98,513)
Restructuring (charges) benefit, including executive severance	(16,842)	(9,088)	(30,631)
Reimbursement payment in connection with the cooperation and settlement agreement	—	(3,500)	—
Amortization of intangibles and other acquisition-related costs	(218,149)	(204,448)	(210,513)
Impairment of assets and other	—	—	(33,944)
Impairment related to assets held for sale	(76,590)	—	(37,219)
Loss on extinguishment of debt	(5,169)	(7,246)	—
Imputed interest on convertible debt, equity component amortization on convertible debt, and amortization of debt issuance cost	(19,947)	(20,538)	(8,306)
Gain on divestiture	—	1,245	—
Changes in value of deferred compensation plan	(728)	(1,277)	(735)
Gain related to investment in Deca Technologies Inc.	—	—	112,774
Goodwill impairment charge	—	—	(488,504)
Gain on sale of cost method investment	1,521	—	—
Impact of purchase accounting and other	3,982	3,136	(47,418)
Income (loss) from operations before income taxes	$ 96,583	$ 2,146	$(663,617)

The Company does not allocate stock-based compensation, changes in value of deferred compensation plan, share in net loss and impairment of equity method investees, amortization of intangible assets, imputed interest on convertible debt, equity component amortization on convertible debt and others, amortization of debt issuance cost, settlement agreements, restructuring charges, loss on extinguishment of Spansion convertible notes, loss on assets held for sale, and gain on sale on cost method investment, impact of purchase accounting, interest income and other, and interest expense to its segments. The Company excludes these items consistent with the manner in which it internally evaluates its results of operations.

CYPRESS SEMICONDUCTOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION (Continued)

Geographical Information

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

	As of	
	December 30, 2018	December 31, 2017
	(In thousands)	
United States	$173,973	$186,824
Philippines	33,413	36,747
Thailand	34,581	29,151
Japan	11,251	12,211
Other	29,768	24,621
Total property, plant and equipment, net	$282,986	$289,554

The Company tracks its assets by physical location. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the Company's CODM does not review asset information on a segment basis.

Customer Information

Outstanding accounts receivable from one of the Company's distributors, accounted for 25% and 28%, respectively, of the Company's consolidated accounts receivable as of December 30, 2018 and December 31, 2017.

Revenue generated through two of the Company's distributors, accounted for 18% and 14%, respectively, of the Company's consolidated revenues for fiscal 2018.

Revenue generated through two of the Company's distributors, accounted for 20% and 13%, respectively, of the Company's consolidated revenues for fiscal 2017.

Revenue generated through one of the Company's distributors accounted for 23% of the Company's consolidated revenues for fiscal 2016.

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Cypress Semiconductor Corporation and its subsidiaries (the "Company") as of December 30, 2018 and December 31, 2017, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended December 30, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2)(collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 27, 2019

We have served as the Company's auditor since 1982.

UNAUDITED QUARTERLY FINANCIAL DATA

Beginning fiscal year 2018, the Company allocated the amortization of acquisition-related intangible assets, restructuring costs and certain other expenses by function in the Consolidated Statements of Operations. The Consolidated Statements of Operations for the prior comparative periods have been reclassified to conform to the current period presentation. See *Note 1* to the Company's consolidated financial statements for further discussion. The 2017 quarterly reclassifications have been effected in the 2018 unaudited interim financial statements filings on Form 10-Q.

Fiscal 2018

	Three Months Ended			
	December 30, 2018(1)	September 30, 2018(2)(3)	July 1, 2018(2)(3)	April 1, 2018(2)(3)
Revenues	$604,474	$673,035	$624,090	$582,241
Gross Margin	$225,210	$259,715	$234,148	$212,392
Net income (loss)	$267,201	$ 50,747	$ 27,794	$ 9,090
Adjust for net loss attributable to non-controlling interest	$ (87)	$ (52)	$ (88)	$ (12)
Net income (loss) attributable to Cypress	$267,114	$ 50,695	$ 27,706	$ 9,078
Net income (loss) per share—basic	$ 0.74	$ 0.14	$ 0.08	$ 0.03
Net income (loss) per share—diluted	$ 0.72	$ 0.14	$ 0.07	$ 0.02

Fiscal 2017

	Three Months Ended			
	December 31, 2017(4)(5)(7)	October 1, 2017(5)	July 2, 2017(4)(5)(6)	April 2, 2017(4)(5)
Revenues	$597,547	$604,574	$593,776	$531,874
Gross Margin	$222,385	$209,696	$192,745	$157,108
Net income (loss)	$(34,026)	$ 13,030	$(16,854)	$(42,935)
Adjust for net loss attributable to non-controlling interest	$ 12	$ (14)	$ (66)	$ (64)
Net income (loss) attributable to Cypress	$(34,014)	$ 13,016	$(16,920)	$(42,999)
Net income (loss) per share—basic	$ (0.10)	$ 0.04	$ (0.05)	$ (0.13)
Net income (loss) per share—diluted	$ (0.10)	$ 0.04	$ (0.05)	$ (0.13)

(1) During the fourth quarter of fiscal 2018, the Company recorded an impairment charge of $41.5 million related to its investment in Deca Technologies Inc., a privately held company, loss on assets held for sale of $76.6 million related to the Company's entry into a definitive agreement to divest the NAND business, and release of the deferred taxes valuation allowance of $343.3 million. See *Note 7*, *Note 6*, and *Note 20* of the Notes to Consolidated Financial Statements, respectively.

(2) During the first, second, and third quarters of fiscal 2018, the Company recorded $4.1 million, $1.2 million, and $10.0 million, respectively, of restructuring charges. See *Note 11* of the Notes to Consolidated Financial Statements.

(3) During the first, second, and third quarters of fiscal 2018, the Company recorded $53.1 million, $53.7 million, and $55.4 million, respectively, of amortization expenses related to intangible assets. See *Note 5* of the Notes to Consolidated Financial Statements.

(4) During the first, second, and fourth quarters of fiscal 2017, the Company recorded $2.5 million, $0.9 million, and $5.6 million, respectively, of restructuring charges. See *Note 11* of the Notes to Consolidated Financial Statements.

(5) During the first, second, third and fourth quarters of fiscal 2017, the Company recorded $48.2 million, $49.4 million, $48.4 million, and $49.2 million, respectively, of amortization expenses related to intangible assets. See *Note 5* of the Notes to Consolidated Financial Statements.

(6) In the second quarter of fiscal 2017, the Company recorded $12.0 million of litigation and proxy related expenses in connection with a shareholder related matter.

(7) During the fourth quarter of fiscal 2017, the Company recorded an impairment charge of $51.2 million related to its investment in Enovix, a privately held company.

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Based on our evaluation as of the end of the period covered by this Annual Report on Form 10-K and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 30, 2018 our disclosure controls and procedures were effective at the reasonable assurance level.

Remediation of Previously Disclosed Material Weakness

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

We previously identified and disclosed in our Form 10-K for the year ended December 31, 2017, as well as in our Forms 10-Q for each interim period in fiscal 2018, a material weakness in our internal control over financial reporting related to the calculation of stock-based compensation expense. Specifically, we had not designed internal controls at a precision level sufficient to detect errors in certain assumptions and calculations used in the determination of non-cash stock-based compensation primarily relating to Employee Stock Purchase Program ("ESPP").

Throughout fiscal 2018, we implemented changes to our processes to improve our internal control over financial reporting to remediate the control deficiency that gave rise to the material weakness. Specifically, we implemented the following changes and improvements:

- Redesigned controls over the evaluation of assumptions and detailed calculations relating to the ESPP and expanded control activities to adequately reconcile and validate assumptions in the models used to determine non-cash stock-based compensation expense;
- Re-evaluated the design of stock-based compensation processes and implemented new and improved processes and controls, as appropriate, including adding supplemental oversight and review; and

- Strengthened the precision of the internal review process to ensure the completeness and accuracy of the assumptions and calculations used in accounting for stock-based compensation.

Upon completion of our testing of the design and operating effectiveness of these new control procedures, management concluded that the previously-identified material weakness was remediated as of December 30, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are being made only in accordance with management and director authorization; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

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

Management assessed the effectiveness of our internal control over financial reporting as of December 30, 2018. Management based this assessment on criteria described in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that as of December 30, 2018, we maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, who audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 30, 2018, as stated in their report which appears under Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report. We intend to file a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference as stated below.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning directors is incorporated by reference to the information set forth in the section titled "Proposal One—Election of Directors" in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which we intend to file with the SEC within 120 days of the fiscal year ended December 30, 2018 (the "2019 Proxy Statement").

The information required by this item concerning delinquent filers pursuant to Item 405 of Regulation S-K is incorporated by reference to the information set forth in the section titled "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2019 Proxy Statement.

The information required by this item concerning executive officers is incorporated by reference to Item 1 of this Annual Report.

We have adopted a code of ethics that applies to all of our directors, officers and employees. We have made the code of ethics available, free of charge, on our website at *www.cypress.com*. By referring to our website, we do not incorporate such website or its contents into this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference from the information set forth in the sections titled "Compensation Discussion and Analysis" and "Executive Compensation Tables" in our 2019 Proxy Statement.

The information required by this item concerning compensation of directors is incorporated by reference to the information set forth in the section titled "Director Compensation" in our 2019 Proxy Statement.

The information required by this item concerning our compensation committee is incorporated by reference to the information set forth in the sections titled "Compensation Committee Interlocks and Insider Participation" and "Report of the Compensation Committee of the Board of Directors" in our 2019 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item concerning security ownership of certain beneficial owners, directors and executive officers is incorporated by reference to the information set forth in the section titled "Security Ownership of Certain Beneficial Owners and Management" in our 2019 Proxy Statement.

The information required by this item regarding our equity compensation plans is incorporated by reference to the information set forth in the section titled "Securities Authorized for Issuance under Equity Compensation Plans" in our 2019 Proxy Statement.

Form 10-K

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item concerning transactions with certain persons is incorporated by reference to the information set forth in the sections titled "Policies and Procedures with Respect to Related Person Transactions" and "Certain Relationships and Related Transactions" in our 2019 Proxy Statement.

The information required by this item concerning director independence is incorporated by reference to the information set forth in the section titled "Corporate Governance" in our 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item concerning fees and services is incorporated by reference to the information set forth in the section titled "Proposal Two—Ratification of the Selection of Independent Registered Public Accounting Firm" in our 2019 Proxy Statement.

The information required by this item regarding the audit committee's pre-approval policies and procedures is incorporated by reference to the information set forth in the section titled "Proposal Two—Ratification of the Selection of Independent Registered Public Accounting Firm" in our 2019 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

1. Financial Statements:

2. Financial Statement Schedule (Valuation and Qualifying Accounts) for the years ended December 30, 2018, December 31, 2017 and January 1, 2017:

3. Exhibits:

The documents listed below are filed (or furnished, as noted) as exhibits to this Annual Report on Form 10-K:

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference to: Form*	Filing Date	Exhibit	Filed Herewith
2.1	Agreement and Plan of Merger and Reorganization, dated December 1, 2014, between Cypress Semiconductor Corporation and Spansion Inc.	8-K	2014-12-01	2.1	
2.2	Asset Purchase Agreement by and between Broadcom Corporation as Seller and Cypress Semiconductor Corporation as Buyer dated as of April 28, 2016.	10-Q	2016-05-10	10.1	
2.3	Joint Venture Agreement, dated October 23, 2018, between Cypress Semiconductor Corporation and SK hynix system ic Inc.				X
3.1.1	Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation, dated June 12, 2000 (included in Exhibit 3.1.2 below)				
3.1.2	Amendment, dated March 23, 2017, to Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation.	10-Q	2017-05-02	3.1	

Exhibit Number	Exhibit Description	Incorporated by Reference to: Form*	Filing Date	Exhibit	Filed Herewith
3.2	Amended and Restated Bylaws of Cypress Semiconductor Corporation (effective September 21, 2017).	8-K	2017-09-25	3.1	
4.1.1	Form of 2% Spansion Exchangeable Note due 2020 (included in exhibit 4.1.2 below).				
4.1.2	Indenture, dated August 26, 2013, among Spansion LLC, other parties thereto, and Wells Fargo Bank, National Association, as trustee.	8-K(a)	2013-08-26	4.1	
4.1.3	Supplemental Indenture, dated March 12, 2015, among Spansion LLC, Cypress Semiconductor Corporation, other parties thereto, and Wells Fargo Bank, National Association, as trustee.	8-K	2015-03-12	4.1	
4.2.1	Form of 4.50% Senior Exchangeable Note due 2022 (included in Exhibit 4.2.2 below).				
4.2.2	Indenture, dated June 23, 2016, by and between Cypress Semiconductor Corporation and U.S. Bank National Association, as trustee.	8-K	2016-06-23	4.1	
4.3	Form of Capped Call Transaction Confirmation Letter (entered into in 2016 in connection with the 2022 Notes).	10-Q	2016-08-09	4.1	
4.4.1	Form of 2.00% Senior Convertible Note due 2023 (included in Exhibit 4.4.2 below).				
4.4.2	Indenture, dated November 6, 2017, between Cypress Semiconductor Corporation and U.S. Bank National Association, as trustee.	8-K	2017-11-06	4.1	
10.1.1	Amended and Restated Credit and Guaranty Agreement, dated as of March 12, 2015, among Cypress Semiconductor Corporation, the guarantors party thereto, the lenders party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, East West Bank, Silicon Valley Bank, and SunTrust Bank, as syndication agents and documentation agents, and Morgan Stanley Bank, N.A., as Issuing Bank (included as Annex III to Exhibit 10.1.2 below).				
10.1.2	Amendment and Restatement Agreement, dated as of March 12, 2015, among Cypress Semiconductor Corporation, certain of its subsidiaries, the lenders party thereto, and Morgan Stanley Senior Funding, Inc., as administrative agent.	8-K	2015-03-12	10.1	

Exhibit Number	Exhibit Description	Incorporated by Reference to:			Filed Herewith
		Form*	Filing Date	Exhibit	
10.1.3	Amended and Restated Pledge and Security Agreement, dated March 12, 2015, among, Cypress Semiconductor Corporation, the grantors party thereto, and Morgan Stanley Senior Funding, Inc., as collateral agent.	8-K	2015-03-12	10.3	
10.1.4	Amendment No. 1, dated October 20, 2015, to Amended and Restated Credit and Guaranty Agreement.	10-Q	2015-11-05	10.4	
10.1.5	Joinder Agreement dated December 22, 2015.	8-K	2016-01-11	10.1	
10.1.6	Incremental Revolving Joinder Agreement dated as of January 6, 2016.	8-K	2016-01-11	10.2	
10.1.7	Amendment No. 2, dated March 23, 2016, to Amended and Restated Credit and Guaranty Agreement.	10-Q	2016-05-10	10.3	
10.1.8	Amendment No. 3, dated April 27, 2016, to Amended and Restated Credit and Guaranty Agreement.	10-Q	2016-05-10	10.4	
10.1.9	Term Loan B Commitment Letter for the Broadcom transaction (Project Le Cose), dated April 28, 2016.	10-Q	2016-05-10	10.2	
10.1.10	Joinder and Amendment Agreement, dated July 5, 2016.	8-K	2016-07-05	10.1	
10.1.11	Amendment No. 4, dated February 17, 2017, to Amended and Restated Credit and Guaranty Agreement.	8-K	2017-02-21	10.1	
10.1.12	Amendment No. 5, dated April 7, 2017, to Amended and Restated Credit and Guaranty Agreement.	8-K	2017-04-10	10.1	
10.1.13	Joinder Agreement and Amendment No. 6, dated August 18, 2017, to Amended and Restated Credit and Guaranty Agreement.	8-K	2017-08-18	10.1	
10.1.14	Amendment No. 7, dated March 12, 2018, to Amended and Restated Credit and Guaranty Agreement.	8-K	2018-03-15	10.1	
10.1.15	Amendment No. 8, dated September 13, 2018, to Amended and Restated Credit and Guaranty Agreement.	8-K	2018-09-17	10.1	
10.2.1+	2013 Stock Plan, as amended and restated effective June 20, 2017.	10-Q	2017-07-28	10.1	
10.2.2+	Amendment, dated February 16, 2018, to the 2013 Stock Plan.	10-Q	2018-04-30	10.3	

Exhibit Number	Exhibit Description	Incorporated by Reference to: Form*	Filing Date	Exhibit	Filed Herewith
10.2.3+	Form of Restricted Stock Unit Agreement and related notice of grant under the 2013 Stock Plan (in use 2015-2018).	10-Q	2015-11-05	10.2	
10.2.4+	Form of Restricted Stock Unit Agreement, and related notice of grant, under the 2013 Stock Plan (in use starting November 2018).				X
10.2.5+	Form of Milestone-Based Restricted Stock Unit Agreement, and related notice of grant, under the 2013 Stock Plan (in use starting November 2018).				X
10.3.1+	2010 Equity Incentive Award Plan, as amended and restated effective August 5, 2016.				X
10.3.2+	Form of Restricted Stock Unit Agreement and related notice of grant under the 2010 Stock Plan (in use starting November 2018).				X
10.3.3+	Form of Milestone-Based Restricted Stock Unit Agreement and related notice of grant under the 2010 Stock Plan (in use starting November 2018).				X
10.4.1+	2012 Incentive Award Plan, as amended and restated on November 19, 2012.	S-8(b)	2012-12-12	10.4	
10.4.2+	Amendment, dated February 16, 2018, to the 2012 Incentive Award Plan.	10-Q	2018-04-30	10.2	
10.5+	1999 Non-Statutory Stock Option Plan, as amended and restated September 30, 2008.	S-8(c)	2008-10-27	10.2	
10.6.1+	Employee Stock Purchase Plan, as amended and restated effective January 1, 2019.	S-8(d)	2018-06-20	4.3	
10.6.2+	Form of Employee Stock Purchase Plan Subscription Agreement.	S-8(d)	2018-06-20	4.4	
10.7.1+	Non-Qualified Deferred Compensation Plan I, as amended and restated effective January 1, 2018.				X
10.7.2+	Non-Qualified Deferred Compensation Plan II, as amended and restated effective January 1, 2018.				X
10.7.3+	Non-Qualified Pre-2005 Deferred Compensation Plan I.				X
10.7.4+	Non-Qualified Pre-2005 Deferred Compensation Plan II.				X
10.8+	Cypress Incentive Plan (executive annual cash bonus plan) Summary Description.	8-K	2016-02-25		
10.9.1+	Hassane El-Khoury Employment Offer Letter, dated August 10, 2016.	8-K	2016-08-12	10.1	

Exhibit Number	Exhibit Description	Incorporated by Reference to: Form*	Filing Date	Exhibit	Filed Herewith
10.9.2+	Hassane El-Khoury Employment Agreement, dated November 30, 2016.	10-K	2017-03-01	10.41	
10.9.3+	Hassane El-Khoury Amended and Restated Employment Agreement, dated December 3, 2018.	8-K	2018-12-03	10.2	
10.10+	Thad Trent Employment Offer Letter, dated September 20, 2005				X
10.11+	Sam Geha Employment Offer Letter, dated October 27, 1995				X
10.12+	Sudhir Gopalswamy Employment Offer Letter, dated February 26, 2008				X
10.13+	Pamela Tondreau Employment Offer Letter, dated January 15, 2015				X
10.14+	Form of Amended and Restated Change of Control Severance Agreement (between the Company and its named executive officers other than the CEO).	8-K	2018-12-03	10.1	
10.15	Mutual Release Agreement, dated as of June 11, 2017, between the Company and H. Raymond Bingham.	8-K	2017-06-12	10.1	
10.16	Cooperation and Settlement Agreement, dated June 30, 2017, between the Company, TJ Rodgers, and the Rodgers parties named therein.	8-K	2017-07-06	10.1	
21.1	Subsidiaries of Cypress Semiconductor Corporation.				X
23.1	Consent of Independent Registered Public Accounting Firm.				X
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).				X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1(e)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2(e)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X

Exhibit Number	Exhibit Description	Incorporated by Reference to: Form*	Filing Date	Exhibit	Filed Herewith
101.INS	XBRL Instance Document.				X
101.SCH	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X

* Unless otherwise noted, Commission File Number for incorporated documents is 001-10079.

\+ Management contract or compensatory plan or arrangement.

(a) Filed by Spansion, Inc., Commission File Number 001-34747.

(b) Form S-8 filed 2012-12-12 Commission File Number is 333-185439.

(c) Form S-8 filed 2008-10-27 Commission File Number is 333-154748.

(d) Form S-8 filed 2018-06-20 Commission File Number is 333-225759.

(e) Exhibits 32.1 and 32.2 are furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

ITEM 16. FORM 10-K SUMMARY

None.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Expenses or Other Accounts	Deductions Credited to Expenses or Other Accounts	Balance at End of Period
		(In thousands)		
Allowance for doubtful accounts receivable:				
Year ended December 30, 2018	$ 1,028	$ —	$ (124)	$ 904
Year ended December 31, 2017	$ 1,028	$ —	$ —	$ 1,028
Year ended January 1, 2017	$ 1,189	$ 490	$ (651)	$ 1,028
Deferred tax valuation allowance				
Year ended December 30, 2018	$513,191	$ —	$(354,656)(1)	$158,535
Year ended December 31, 2017	$445,030	$68,161	$ —	$513,191
Year ended January 1, 2017	$512,975	$ —	$ (67,945)	$445,030

(1) Includes the 2018 change in valuation allowance previously recorded primarily related to certain federal and state deferred tax assets of $343.3 million that management has determined more likely than not to be realized.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CYPRESS SEMICONDUCTOR CORPORATION

Date: February 27, 2019

By: /s/ THAD TRENT

Thad Trent
Executive Vice President, Finance and Administration and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hassane El-Khoury and Thad Trent, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HASSANE EL-KHOURY Hassane El-Khoury	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2019
/s/ THAD TRENT Thad Trent	Executive Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2019
/s/ W. STEVE ALBRECHT W. Steve Albrecht	Chairman of the Board of Directors	February 27, 2019
/s/ OH CHUL KWON Oh Chul Kwon	Director	February 27, 2019
/s/ CATHERINE P. LEGO Catherine P. Lego	Director	February 27, 2019

Signature	Title	Date
/s/ CAMILLO MARTINO Camillo Martino	Director	February 27, 2019
/s/ J. DANIEL MCCRANIE J. Daniel McCranie	Director	February 27, 2019
/s/ JEFFREY J. OWENS Jeffrey J. Owens	Director	February 27, 2019
/s/ JEANNINE P. SARGENT Jeannine P. Sargent	Director	February 27, 2019
/s/ MICHAEL S. WISHART Michael S. Wishart	Director	February 27, 2019

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

I, Hassane El-Khoury, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2019

By: /s/ HASSANE EL-KHOURY

Hassane El-Khoury
President and Chief Executive Officer

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

I, Thad Trent, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2019

By: /s/ THAD TRENT

Thad Trent
Executive Vice President, Finance and Administration and Chief Financial Officer

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Hassane El-Khoury, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended December 30, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: February 27, 2019

By: /s/ HASSANE EL-KHOURY

Hassane El-Khoury
President and Chief Executive Officer

I, Thad Trent, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended December 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Date: February 27, 2019

By: /s/ THAD TRENT

Thad Trent
Executive Vice President, Finance and Administration and Chief Financial Officer

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CYPRESS
EMBEDDED IN TOMORROW™

March 15, 2019

Dear Fellow Stockholder:

You are invited to attend Cypress Semiconductor Corporation's 2019 Annual Meeting of Stockholders. We will hold the meeting on May 3, 2019, at 10:00 a.m. Pacific Daylight Time, at our principal executive offices located at 198 Champion Court, San Jose, California 95134. Please refer to the Proxy Statement for detailed information on each of the proposals to be presented at the Annual Meeting.

Your vote is important, and we strongly urge you to cast your vote whether or not you plan to attend the Annual Meeting.

Please note that our Annual Meeting will be limited to discussions on the proposals under consideration. There will be no presentation by management. We encourage you to visit our Investor Relations website for resources on Cypress 3.0, financial results, and investor presentations.

If you are a stockholder of record as of the record date, which is March 8, 2019 (meaning that you held shares directly with our transfer agent, Computershare Trust Company N.A., on such date), the inspector of elections will have your name on a list and you will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver's license, state-issued ID card, passport). If you hold shares in a brokerage account or in "street name" and wish to attend the Annual Meeting in person, you will also need to bring evidence that you held Cypress stock on the record date (such as a letter from your broker or your brokerage statement for March 2019).

Thank you for your ongoing support and continued interest in Cypress Semiconductor Corporation.

Very truly yours,

Hassane El-Khoury
President and Chief Executive Officer

CYPRESS SEMICONDUCTOR CORPORATION

NOTICE OF THE 2019 ANNUAL MEETING OF STOCKHOLDERS

TO ALL CYPRESS STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2019 Annual Meeting of Stockholders of Cypress Semiconductor Corporation, a Delaware corporation, will be held on:

Date: May 3, 2019

Time: 10:00 a.m. Pacific Daylight Time

Place: Cypress's principal executive offices located at 198 Champion Court, San Jose, California 95134

Items of Business:

1. Election of eight directors to serve on our Board of Directors for a one-year term, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal;
2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2019;
3. Approval, on an advisory basis, of the Company's named executive officer compensation; and
4. Transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice.

This Notice, our 2018 Annual Report, our 2019 Proxy Statement, and our notice of Internet availability of proxy materials are first being made available to stockholders on or about March 20, 2019.

All stockholders may attend the Annual Meeting in person. Only stockholders of record at the close of business on March 8, 2019, are entitled to receive notice of, and to vote at, the Annual Meeting, or any adjournment or postponement thereof. Any stockholder attending the Annual Meeting and entitled to vote may do so in person even if such stockholder returned a proxy card or voted by telephone or online. We have provided voting instructions in the attached proxy statement on how you can vote your shares at or before the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 3, 2019: Our 2018 Annual Report, which includes the attached proxy statement and our Form 10-K for the fiscal year ended December 30, 2018, is available online at *www.cypress.com/2018annualreport*. You are encouraged to access and review all of the important information contained in these materials prior to voting.

Our Board of Directors has selected the eight persons named in the attached proxy statement as its nominees for election to the Board of Directors at the Annual Meeting. Each of our nominees is currently serving as a director of Cypress. We believe that the eight nominees named in the attached proxy statement have a well-rounded combination of experience, expertise, and insight and are the right leadership team to build value for all Cypress stockholders.

FOR THE BOARD OF DIRECTORS

P. Tondreau

Pamela L. Tondreau
Corporate Secretary

San Jose, California, March 15, 2019

PROXY STATEMENT
FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS

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PROXY STATEMENT SUMMARY

The following summary highlights information contained in this proxy statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement"). This summary does not contain all of the information you should consider. Please read the entire Proxy Statement carefully before voting.

2019 Annual Meeting Information	Items of Business		
	Proposal	**Board Recommendation**	**Page Number**
Date: May 3, 2019 **Time:** 10:00 a.m. Pacific Time **Location:** Cypress Semiconductor Corp. 198 Champion Court San Jose, CA 95134	1. Election of eight directors to serve on our Board of Directors for one-year terms, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.	For all	10
Record Date: March 8, 2019 **Admission:** To attend the meeting in person, you will need to bring valid picture identification and evidence that you held Cypress stock on the record date (such as your brokerage statement for March 2019).	2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2019.	For	16
	3. Approval, on an advisory basis, of the Company's Named Executive Officer compensation.	For	18

Executive Compensation Highlights
(Begins on Page 39)

We pay for performance:

- a significant portion of the compensation we provide to our Named Executive Officers* is 100% at-risk performance-based equity
- the target total cash compensation of our Named Executive Officers is aligned with our peer group
- the goals incentivized by our 2018 long-term incentive grants included: 2018 non-GAAP net income; 2018 new product revenue; 2020 pre-tax profit margin; three-year relative total stockholder return ("TSR"); and four-year revenue growth relative to semiconductor industry market growth
- our Named Executive Officers' performance-based compensation includes a meaningful multi-year component

We seek to mitigate compensation-related risk through a variety of program features, including the following:

- we offer an appropriate mix of pay elements, with compensation well-balanced between fixed and variable elements, and short- and long-term incentives
- base salaries are intended to constitute a sufficient component of total compensation to discourage undue risk-taking in order to meet incentive goals
- our incentive plans are designed with goals that are intended to result in long-term value to our stockholders
- the financial goals in our incentive programs are set at levels intended to be attainable without the need to take inappropriate risks
- bonus and incentive opportunities are capped so that the upside potential is not so large as to encourage undue risk-taking
- the majority of our equity incentives vest or are earned over a multi-year period, which requires the executive to bear the economic risk of the award over the vesting or performance period
- our incentive plans define a range of performance over which payouts may be earned, including at levels below target achievement, rather than an "all-or-nothing" approach
- different performance measures are used in different incentive programs, which provides balance and reduces the potential for taking undue risks to meet a single goal
- we have a stock ownership requirement for all Named Executive Officers
- we have anti-hedging and anti-pledging policies for all Named Executive Officers and directors

* Our "Named Executive Officers" are the five executives whose compensation is reported in detail in this Proxy Statement pursuant to the rules of the U.S. Securities and Exchange Commission ("SEC").

Corporate Governance Practices (begins on page 20)
We have strong corporate governance practices: • annual election of directors • majority voting in uncontested director elections • proxy access bylaw provisions • seven of eight director nominees are independent • independent board committee members • separation of chairman and CEO positions; independent chairman • annual “say-on-pay” votes • annual board and committee self-evaluations • periodic evaluations of individual directors • robust annual review of our Code of Business Conduct and Ethics, Corporate Governance Guidelines, and Insider Trading Policy

Director Nominees				Committees		
Name	**Director Since**	**Independent**	**Position**	**Audit**	**Comp.**	**Nominating and Corp. Governance**
W. Steve Albrecht*	2003	✓	Chairman of the Board	Chair		✓
Hassane El-Khoury	2016		President, Chief Executive Officer (“CEO”) and Director			
Oh Chul Kwon	2015	✓	Director			
Catherine P. Lego*	2017	✓	Director	✓		✓
Camillo Martino	2017	✓	Director	✓	Chair	
Jeffrey J. Owens	2017	✓	Director	✓	✓	
Jeannine P. Sargent	2017	✓	Director		✓	✓
Michael S. Wishart	2015	✓	Director		✓	Chair

* Mr. Albrecht and Ms. Lego have been designated as “audit committee financial experts” in accordance with the requirements of the SEC and the Nasdaq Listing Rules.

FREQUENTLY ASKED QUESTIONS

ABOUT THE PROXY MATERIALS AND VOTING

Why am I receiving these materials?

The Board of Directors (the "Board") of Cypress Semiconductor Corporation (sometimes referred to as "we," "us," "our," the "Company" or "Cypress") is providing these proxy materials to solicit your vote at the 2019 Annual Meeting of Stockholders, or any adjournment or postponement thereof (the "Annual Meeting"). The Annual Meeting will be held on May 3, 2019, at 10:00 a.m. Pacific Daylight Time at our principal executive offices located at 198 Champion Court, San Jose, California 95134. The telephone number at this address is (408) 943-2600.

Who may attend the Annual Meeting?

All stockholders and holders of proxies for those stockholders as of the close of business on March 8, 2019 (the "Record Date"), as well as other persons invited by Cypress, may attend the Annual Meeting.

Please note that our Annual Meeting will be limited to discussions on the proposals under consideration. There will be no presentation by management. We encourage you to visit our Investor Relations website for resources on Cypress 3.0, financial results, and investor presentations.

If you are a stockholder of record as of the Record Date (meaning that you held shares directly with our transfer agent, Computershare Trust Company, N.A., on March 8, 2019) the inspector of elections will have your name on a list, and you will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver's license, state-issued ID card, passport). Stockholders holding stock in brokerage accounts or in "street name" wishing to attend the Annual Meeting in person will also need to bring a letter or account statement from their broker reflecting their stock ownership as of the Record Date.

Who is entitled to vote?

Only Cypress stockholders as of the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 364,593,066 shares outstanding of Cypress's common stock, par value $0.01 per share.

What may I vote on?

You may vote on all proposals listed below:

1. Election of eight directors to serve on our Board for one-year terms, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal;
2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2019;
3. Approval, on an advisory basis, of the Company's Named Executive Officer compensation; and
4. Transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

What is the difference between a registered stockholder (or stockholder of record) and a beneficial owner?

Registered Stockholder (or Stockholder of Record): Shares Registered in Your Name
If, on the Record Date, your shares were registered directly in your name with the Company's transfer agent, Computershare Trust Company, N.A., then you are a registered stockholder (also known as a stockholder of

record). As such, you may vote in person at the Annual Meeting or you may vote by proxy. Please note that shares you hold in a bank or brokerage account are *not* generally registered directly in your name.

Beneficial Owner: Shares Held in an Account at a Bank or Broker
If your shares were held in an account at a bank, brokerage firm, dealer or other similar organization on the Record Date, then you are the beneficial owner of shares, which are said to be held in "street name," and these proxy materials are being forwarded to you by that organization. The organization holding your account (or its nominee) is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to instruct your bank or broker on how to vote the shares in your account. You are also invited to attend the Annual Meeting. You will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver's license, state-issued ID card, passport), along with a copy of a letter (or your monthly statement) from your bank or broker reflecting your stock ownership as of the Record Date. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a legal proxy from your bank or broker in advance of the Annual Meeting.

How do I vote and what are the voting deadlines?

Whether you hold your shares directly as the stockholder of record or beneficially in "street name," you may vote your shares without attending the Annual Meeting. Depending on how you hold your shares, you may vote your shares in one of the following ways:

Stockholders of Record: If you are a stockholder of record, there are several ways for you to vote your shares.

By mail	By telephone or online	In person at the Annual Meeting
If you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received and returning each proxy card in the prepaid envelope. Sign your name exactly as it appears on your proxy card. To ensure your vote is counted, proxy cards submitted by mail must be received no later than 5:00 p.m. Eastern Daylight Time on May 2, 2019.	You may vote your shares by telephone or online by following the instructions provided in the proxy materials. If you vote by telephone or online, you do not need to return a proxy card by mail. Online and telephone voting are available 24 hours a day. Votes submitted by telephone or online must be received by 11:59 p.m. Eastern Daylight Time on May 2, 2019.	You may vote your shares in person at the Annual Meeting. Even if you plan to attend the Annual Meeting in person, we recommend that you also submit your proxy card or voting instructions, or vote by telephone or online by the applicable deadline so that your vote will be counted if you later decide not to attend the Annual Meeting.

Beneficial Owners: If you are the beneficial owner of your shares, you should have received the proxy materials and voting instructions from the bank or broker holding your shares. You should follow the instructions in the proxy materials and voting instructions to instruct your bank or broker on how to vote your shares. The availability of telephone and online voting will depend on the voting process of the bank or broker. Shares held beneficially may be voted in person at the Annual Meeting only if you obtain a legal proxy from the bank or broker in advance of the Annual Meeting giving you the right to vote your shares.

What shares may be voted and how may I cast my vote for each proposal?

You may vote all shares you own as of the close of business on the Record Date. You may cast one vote per share of common stock you own for each proposal. You may vote "for," "against," or "abstain" with respect to each director nominee, separately, and with respect to each of Proposals 2 and 3.

How many votes are needed to approve each proposal?

With respect to Proposal 1, Cypress has adopted a majority voting standard for uncontested director elections and a plurality voting standard for contested elections. The voting standard is discussed further under the section titled

"Proposal One—Election of Directors." Because the number of nominees timely nominated for election at the Annual Meeting does not exceed the number of directors to be elected at the meeting, the election of directors at the Annual Meeting is an uncontested election. As a result, directors will be elected by a majority of the votes cast at the Annual Meeting, meaning that each director that receives more "FOR" votes than "AGAINST" votes will be elected.

With respect to Proposals 2 and 3, in order for each proposal to be approved, it must receive a "FOR" vote from a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal.

Proposal	Vote Required	Broker Vote Allowed Without Client Instructions?
Proposal 1 – Election of eight directors	Majority of votes cast at the Annual Meeting	No
Proposal 2 – Ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2019	Majority of shares present in person or represented by proxy and entitled to vote	Yes
Proposal 3 – Approval, on an advisory basis, of our Named Executive Officer compensation	Majority of shares present in person or represented by proxy and entitled to vote	No

What effect do abstentions and broker non-votes have on the proposals?

Abstentions. An "abstention" occurs when you specifically instruct the proxy holder to abstain from voting your shares (such as by marking "ABSTAIN" on your proxy card or voting instruction form). In all matters other than the election of directors, abstentions have the same effect as votes "AGAINST" the proposal. With respect to the election of directors, abstentions will not be counted as votes cast on the election of the director nominee and therefore will have no effect on the election of the nominees.

Broker Non-Votes. A broker is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm, without instructions from the beneficial owner of those shares. On the other hand, a broker is not entitled to vote shares held for a beneficial owner on non-routine items absent instructions from the beneficial owner of such shares. Each of the other proposals to be considered and voted on at the Annual Meeting (namely, the election of directors and the advisory approval of the Company's Named Executive Officer compensation) are considered non-routine items. Consequently, if you hold shares in street name and you do not submit any voting instructions to your broker, your broker may exercise its discretion to vote your shares on the proposal to ratify the appointment of PricewaterhouseCoopers LLP but will not have the authority to vote your shares on any of the other proposals. If this occurs, your shares will be voted in the manner directed by your broker on the proposal to ratify the appointment of PricewaterhouseCoopers LLP but will constitute "broker non-votes" on each of the other proposals. Broker non-votes will have no effect on the election of the nominees in Proposal 1. Similarly, broker non-votes will not be counted in determining the outcome of the vote on proposals 2 and 3.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if the holders of at least a majority of the outstanding shares are present in person or represented by proxy at the Annual Meeting. Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your bank or broker) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted toward the quorum requirement. If there is no quorum, the chairman of the Annual Meeting or holders of a majority of the votes present at the Annual Meeting may adjourn the Annual Meeting to another time and date.

How can I change my vote or revoke my proxy?

If you are a stockholder of record, you have the right to revoke your proxy and change your vote at any time before the Annual Meeting by (i) returning a later-dated proxy card, or (ii) voting again online or by telephone, as more fully described in your proxy materials or proxy card. You may also revoke your proxy and change your vote by voting in person at the Annual Meeting.

If your shares are held in "street name" by a bank or broker, you may change your vote by submitting new voting instructions to your bank, broker, trustee or agent, or, if you have obtained a legal proxy from your bank or broker giving you the right to vote your shares, by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not cause your previously granted proxy to be revoked unless you specifically so request or vote again at the Annual Meeting.

How will my shares be voted if I do not provide specific voting instructions in the proxy card or voting instruction form that I submit?

If you submit a signed proxy card or voting instruction form without giving specific voting instructions (for, against, or abstain) on one or more matters listed in the notice for the meeting, your shares will be voted as recommended by our Board on such matters, and as the proxyholders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

What happens if additional matters are presented at the Annual Meeting?

If you grant a proxy, the persons named as proxyholders, Thad Trent and Pamela L. Tondreau, will each have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

Other than the matters and proposals described in this Proxy Statement, we have not received valid notice of any other business to be acted upon at the Annual Meeting.

What does it mean if I get more than one proxy card, voting instruction form, or notice of Internet availability of proxy materials?

It means you hold shares in more than one account. You must vote all of your proxy cards and voting instruction forms in one of the manners described above (under "How do I vote and what are the voting deadlines") to ensure that all your shares are voted. If you receive more than one notice of Internet availability of proxy materials, you must vote online (or in one of the other manners described above) with respect to each control number shown on the notices to ensure that all of your shares are voted.

Who will count the votes?

Representatives of an independent proxy tabulator will count the votes, and Pamela L. Tondreau, our Corporate Secretary, will act as the Inspector of Elections. The procedures to be used by the Inspector of Elections are consistent with Delaware law concerning the voting of shares, determination of a quorum, and the vote required to take stockholder action.

How much did this proxy solicitation cost and who will pay for the cost?

This solicitation is made on behalf of Cypress's Board and the Company will bear the cost of soliciting your vote in connection with this Proxy Statement. These costs will include the costs of preparing, mailing, online processing and other costs of the proxy solicitation made by our Board. We have requested that banks, brokers and other custodians, agents and fiduciaries send these proxy materials to the beneficial owners of our common stock they represent and secure their instructions as to the voting of such shares. We may reimburse such banks, brokers and other custodians, agents and fiduciaries representing beneficial owners of our common stock for their expenses in forwarding solicitation materials to such beneficial owners. Certain of our directors, officers or employees may also

solicit proxies in person, by telephone, or by electronic communications, but they will not receive any additional compensation for doing so.

Such solicitations may be made by telephone, facsimile transmission, over the Internet or personal solicitation. No additional compensation will be paid to such officers, directors or regular employees for such services. The Company may also solicit stockholders through press releases issued by the Company, advertisements in periodicals and postings on the Company's website at *www.cypress.com*.

The Company has retained Morrow Sodali LLC ("Morrow Sodali") to assist it in soliciting proxies and related services for a fee estimated to be approximately $13,500, plus certain other service fees and expenses. The Company has also agreed to certain indemnification provisions with Morrow Sodali. The Company may incur other expenses in connection with the solicitation of proxies for the Annual Meeting.

Who are the participants in this proxy solicitation?

Our director nominees and certain of our officers and employees are considered "participants" in our solicitation under the rules of the SEC by reason of their position as directors and director nominees of the Company or because they may be soliciting proxies on our behalf. See the section titled "Security Ownership of Certain Beneficial Owners and Management" for additional information with respect to such individuals.

Are proxy materials for the 2019 Annual Meeting available online?

Yes. Our 2018 Annual Report – which includes this 2019 Proxy Statement, our Form 10-K for the year ended December 30, 2018, and a letter to stockholders from our Chief Executive Officer – is available online at *www.cypress.com/2018annualreport*.

May I elect to receive Cypress stockholder communications electronically rather than through the mail?

Yes. If you received your Annual Meeting materials by physical mail, we encourage you to help us to conserve natural resources and reduce Cypress's printing and mailing costs by signing up to receive your stockholder communications via e-mail. With electronic delivery, we will notify you via e-mail as soon as the annual report and the proxy statement are available on the Internet, and you will be able to review those materials and submit your stockholder vote online. Electronic delivery can also help reduce the number of bulky documents in your personal files and eliminate duplicate mailings. To sign up for electronic delivery please visit *www.cypress.com/edelivery-enrollment*. Your electronic delivery enrollment will be effective until you cancel it.

Even if you are not a stockholder, you can sign up to be notified by e-mail whenever Cypress makes an SEC filing or issues a press release, or when other specified events occur. Register at *investors.cypress.com/email-alerts-subscription.*

How can a stockholder request a copy of Cypress's 2018 Form 10-K?

Our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 was filed with the SEC on February 27, 2019 (our "2018 Form 10-K").

Online: Our 2018 Form 10-K is included in our 2018 Annual Report. Visit our website at *www.cypress.com/2018annualreport* to view the Annual Report online or print a copy.

By Mail: Send a written request for a copy of our Annual Report on Form 10-K to: Investor Relations, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. Upon receipt of such request by a stockholder, we will provide a printed copy of our Annual Report on Form 10-K without charge.

How and when may I submit proposals or director nominations for consideration at next year's annual meeting of stockholders?

For stockholder proposals to be considered for inclusion in our 2020 proxy statement, a written proposal must be received by our Corporate Secretary, at our principal executive offices located at 198 Champion Court, San Jose, California 95134, no later than November 21, 2019, in accordance with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In the event the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's Annual Meeting, the deadline for inclusion of stockholder proposals in our proxy statement pursuant to Rule 14a-8 under the Exchange Act would instead be publicly announced to stockholders and would be a reasonable time before we begin to print and mail our proxy materials.

In addition, the Company's bylaws establish an advance notice procedure for stockholders who wish to present certain matters or nominate director candidates before or at an annual meeting of stockholders. Stockholders who wish to submit a proposal or director nomination under the Company's bylaws must deliver written notice to our Corporate Secretary at the address above no earlier than January 5, 2020 and no later than February 4, 2020. Any such proposal or nomination must contain the specific information required by the Company's bylaws.

In the event the date of next year's annual meeting is moved more than 30 days before or 60 days after the anniversary date of this year's Annual Meeting, you may submit a proposal or director nomination under the Company's bylaws by delivering written notice to our Corporate Secretary at the address above no earlier than the close of business on the 120th day prior to the annual meeting and no later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. All stockholder proposals will also need to comply with SEC regulations, including Rule 14a-8 under the Exchange Act regarding the inclusion of stockholder proposals in the Company's proxy materials.

The Company's bylaws also provide for separate notice procedures for eligible stockholders who wish to include their director nominees in the Company's annual meeting proxy materials. Eligible stockholders who wish to submit a director nomination under the Company's proxy access bylaw provisions must deliver written notice to our Corporate Secretary at the address above no earlier than December 5, 2019 and no later than January 4, 2020 (assuming an Annual Meeting date of May 3, 2019). Any such nomination must contain the specific information required by the Company's bylaws.

If you would like a copy of Cypress's current bylaws, please write to: Corporate Secretary, 198 Champion Court, San Jose, California 95134. A copy is also filed with the SEC and can be accessed at *www.sec.gov*.

Where can I find the voting results of the Annual Meeting?

We will announce the preliminary voting results at the Annual Meeting and file a Current Report on Form 8-K announcing the final voting results within a few days after the Annual Meeting.

How many copies of the proxy materials will you deliver to stockholders sharing the same address?

To reduce the expenses of delivering duplicate proxy materials, we are taking advantage of the SEC's "householding" rules that permit us to deliver a single copy of the Proxy Statement and annual report to stockholders who share the same address, unless otherwise requested by one or more of the stockholders. We undertake to deliver promptly, upon written or oral request, a separate copy of such proxy materials to stockholders who share an address. You may request separate proxy materials for the Annual Meeting or for future annual meetings, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by writing to Investor Relations, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134 or by calling (408) 943-2600.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Proxy Statement contains forward-looking statements relating to our strategic and operational plans. Actual results may differ materially from those described in our forward-looking statements as a result of risks and uncertainties, including the important factors set forth under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 30, 2018, which is included in our 2018 Annual Report and is available on our investor relations website at *investors.cypress.com* in the Financials & Filings section, as well as on the website of the U.S. Securities and Exchange Commission at *www.sec.gov*.

PROPOSAL ONE

ELECTION OF DIRECTORS

Cypress's Board of Directors currently consists of nine directors. On November 2, 2018, J. Daniel McCranie, a member of the Board, informed us of his decision not to stand for re-election. Mr. McCranie's decision not to stand for re-election was not the result of any disagreement with the Company. Mr. McCranie will continue to serve as a member of the Board until the election of directors at the 2019 Annual Meeting. The Board has reduced the size of the Board from nine to eight directors, effective upon the election of directors at the Annual Meeting.

Accordingly, eight directors are to be elected to the Board at the 2019 Annual Meeting. Proxies can be voted only for the nominees named in this Proxy Statement. All directors are elected annually and serve a one-year term until the next annual meeting, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. If you submit a signed proxy card that does not specify how you wish to vote, your shares will be voted "FOR" all eight director nominees named below. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by the present Board to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. There are no arrangements or understandings between any nominee and any other person pursuant to which he or she was selected as a director or a nominee. All nominees were previously elected to the Board by our stockholders and are standing for re-election.

W. Steve Albrecht

Age: 72

Director Since: 2003

Other Public Directorships:
Red Hat, Inc.
SkyWest, Inc.

Former Public Directorships:
SunPower Corporation

Dr. Albrecht has been the chairman of our board of directors since June 2017 and is a Professor Emeritus of the Marriott School of Management at Brigham Young University (BYU). He served as the associate dean of the school from 1998 to 2008 and the director of the School of Accountancy from 1990 to 1998. Dr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined BYU in 1977 after teaching at Stanford University and the University of Illinois. Prior to becoming a professor, he worked as an accountant for Deloitte & Touche, an accounting firm. Dr. Albrecht is the past president of the American Accounting Association and the Association of Certified Fraud Examiners. He is a former trustee of the Financial Accounting Foundation that provides oversight to the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board. He is also a former trustee of COSO, the organization that developed the internal control framework used by most companies. In addition to Cypress, Dr. Albrecht currently serves on the boards of directors of Red Hat, Inc., an open-source software company, since 2011, where he has been the chair of the audit committee since 2011 and a member of the nominating and corporate governance committee since 2012, and SkyWest, Inc., a regional airline, since 2012, where he has been the chair of the audit committee and a member of the nominating and corporate governance committee since 2012. Dr. Albrecht also currently serves on the boards of two private companies. Previously, he served on the board of directors of SunPower Corp., a solar panel design and manufacturing company, from 2003 to 2012. Dr. Albrecht has written over 125 academic and professional articles and over 25 books, including a textbook on corporate governance and boards of directors. He has consulted with numerous corporations on fraud, controls, and financial reporting issues, and he has been an expert witness in several large financial statement fraud cases. Dr. Albrecht holds a bachelor of science degree from BYU, as well as a master's degree in business administration and a doctorate degree in accounting from the University of Wisconsin-Madison.

Qualifications: Extensive experience with financial accounting & reporting and compliance, in practice as well as academia, especially with respect to multi-national companies, and significant experience as a public company director.

Committees: Audit (Chair), Nominating & Corporate Governance

Hassane El-Khoury

Age: 39

Director Since: 2016

Other Public Directorships: None

Former Public Directorships: None

Mr. El-Khoury has served as the president and chief executive officer of Cypress since August 2016. He was previously executive vice president of Cypress's Programmable Systems Division (from 2012 to 2016), managing the company's standard and programmable microcontroller portfolio, including its Platform PSoC family of devices and its automotive business. Prior to that, from 2010 to 2012, he served as a senior director of Cypress's automotive business unit. Prior to joining Cypress, Mr. El-Khoury served in various engineering roles with subsystem supplier Continental Automotive Systems, where he spent time based in the U.S., Germany and Japan. He currently serves on the board of directors of the Semiconductor Industry Association, a trade association, since September 2017. Mr. El-Khoury holds a bachelor of science degree in electrical engineering from Lawrence Technological University and a master's degree in engineering management from Oakland University.

Qualifications: Extensive product development and technology experience; leadership and operational management skills; and substantial automotive industry experience.

Committees: None

Oh Chul Kwon

Age: 60

Director Since: 2015

Other Public Directorships: Wonik IPS Co. Ltd. (Korea)

Former Public Directorships:
SK Hynix Inc. (Korea)
Spansion Inc.

Mr. Kwon served as chief executive officer of SK Hynix Inc., a South Korean memory semiconductor supplier of dynamic random access memory (DRAM) chips and flash memory chips, from 2010 to 2013. Mr. Kwon retired from SK Hynix in 2013, but continued to serve as a senior advisor until December 2017. In January 2018, Mr. Kwon became a senior advisor of SK hynix system ic Inc., a wholly owned subsidiary of SK Hynix focusing on the semiconductor foundry business. Mr. Kwon spent almost 30 years at SK Hynix (formerly Hyundai Electronics) in a number of executive roles, including president of Hynix Neumonics Semiconductor, a joint venture between SK Hynix and ST Microelectronics in Wuxi, the People's Republic of China, from 2009 to 2010, and senior vice president of strategic planning and corporate relations of SK Hynix Semiconductor from 2003 to 2009. In February 2019, Mr. Kwon joined the board of directors of Wonik IPS Co. Ltd., a publicly listed semiconductor equipment manufacturer in Korea. Previously, Mr. Kwon also served on the boards of directors of SK Hynix from 2006 to 2013 and Spansion Inc. from 2014 until 2015, when it merged with Cypress. Mr. Kwon has served as an economic advisor to the Jiangsu Provincial Government, People's Republic of China, since 2011, and as chairman of the Korea Semiconductor Industry Association from 2011 to 2013. Mr. Kwon holds a bachelor of arts degree in international economics from Seoul National University, South Korea.

Qualifications: Significant senior leadership, industry, financial and operational experience; international experience; and extensive business development experience in the semiconductor industry.

Committees: None

Catherine P. Lego

Age: 62

Director Since: 2017

Other Public Directorships: Lam Research Corporation, IPG Photonics Corporation

Former Public Directorships: Fairchild Semiconductor International Inc., SanDisk Corporation

Ms. Lego is a professional director and advisor to young technology companies. In 1992 she founded Lego Ventures LLC, a consulting services firm and source of start-up capital for early stage technology companies, and served as its principal and owner until it was closed in December 2018. She previously was a partner at two venture capital funds and practiced as a certified public accountant with Coopers & Lybrand (now PricewaterhouseCoopers). Ms. Lego currently serves on the boards of directors of IPG Photonics Corporation, a producer of high-power fiber lasers, since 2016, where she has been the chair of the compensation committee since 2017 and a member of the audit committee since 2016, and Lam Research Corporation, a wafer fabrication equipment company, since 2006, where she has been the chair of the compensation committee since 2015 and a member of the nominating and governance committee since 2014, and was chair of the audit committee from 2009 to 2014. Within the past five years, she served on the boards of directors of Fairchild Semiconductor International Inc., a fabricator of power management devices, from 2013 to 2016, where she was a member of the compensation committee and nominating and governance committee; and SanDisk Corporation, a global developer of flash memory storage solutions, from 1989 to 2016, where she was the chair of the audit committee. Ms. Lego received a bachelor of arts degree in economics and biology from Williams College and a master of science degree in accounting from the New York University Stern School of Business.

Qualifications: Extensive board level experience working with advanced technology and semiconductor companies; and a deep understanding of risk, accounting, acquisitions, due diligence and integration, compensation and investor relations; she is a frequent speaker on board governance, ethics, and audit quality at directors' colleges and events.

Committees: Audit, Nominating & Corporate Governance

Camillo Martino

Age: 56

Director Since: 2017

Other Public Directorships: MagnaChip Semiconductor Corporation, MosChip (India), Sensera (Australia)

Former Public Directorships: Silicon Image, Inc., Silicon Mountain Holdings, Inc.

Mr. Martino serves as a board member and executive advisor to technology companies, and has been a chief executive officer and C-suite executive of several semiconductor companies. In addition to Cypress, he currently serves on the boards of directors of MagnaChip Semiconductor Corporation, a semiconductor manufacturing company, since August 2016, where he is chair of the compensation committee and a member of the nominating and corporate governance committee; MosChip, a publicly listed semiconductor/systems/IoT engineering company in India, since April 2017; and Sensera, a publicly listed sensor and wireless communications company in Australia, since July 2018. Mr. Martino also serves on the boards of directors of several privately held companies, including SAI Technology, Inc., a cloud communications technology company for which Mr. Martino served as chief operating officer from 2008 to 2010. Within the past five years, Mr. Martino served as the chief executive officer and as a director of Silicon Image, Inc., a semiconductor company, from 2010 until the completion of its sale to Lattice Semiconductor Corporation in 2015. From 2005 to 2007, Mr. Martino also served as the chief executive officer and as a director of Cornice Inc., a memory supplier for consumer electronics. From 2001 to 2005, Mr. Martino served as the executive vice president and chief operating officer at Zoran Corporation, a global semiconductor company. Prior to that, Mr. Martino held multiple positions with National Semiconductor Corporation, a semiconductor manufacturer, for a total of nearly 14 years in four countries. Mr. Martino holds a bachelor of applied science degree majoring in electrical engineering from the University of Melbourne and a graduate diploma in digital communications from Monash University in Australia.

Qualifications: Extensive experience in the semiconductor industry, including experience as a director, chief executive officer and C-suite executive of a number of companies in the industry.

Committees: Audit, Compensation (Chair)

Jeffrey J. Owens

Age: 64

Director Since: 2017

Other Public Directorships: Rogers Corporation

Former Public Directorships: None

Mr. Owens recently retired from his role as chief technology officer and executive vice president at Delphi Automotive, having served in that position from 2012 until 2017, where he was instrumental in transforming the company into a provider of software, electronics, and advanced safety and electrical architectures to the world's largest automotive manufacturers. Prior to his CTO role, during his over 40-year career at Delphi he was president of Delphi's $3 billion electronics and safety division from 2001 to 2012, and also president of Delphi Asia Pacific. He currently serves on the board of directors of Rogers Corporation, a specialty engineered materials company, since 2017, where he has served as a member of the audit committee and the nominating and governance committee since joining the Rogers board, and on the board of trustees at Kettering University since 2008, where he previously served as chairman of the board from 2015 to 2017. Mr. Owens holds a bachelor of science degree in mechanical engineering / electrical engineering from Kettering University and a master of business administration degree from Ball State University.

Qualifications: Extensive leadership, international, technology, engineering and operational experience in the automotive and electronics industries.

Committees: Audit, Compensation

Proxy Statement

Jeannine P. Sargent

Age: 55

Director Since: 2017

Other Public Directorships: Fortive Corporation

Former Public Directorships: None

Ms. Sargent is a professional director. In addition to Cypress, she serves as a director of Fortive Corporation, a diversified industrial conglomerate listed on the NYSE whose board she joined in February 2019, as well as on the boards of directors of two private companies, Proterra Inc., an automotive and energy storage company, since 2018, and VUV Analytics, Inc., a vacuum UV spectroscopy company, since 2014. She has also been the operating partner of, and a senior advisor to, Katalyst Ventures, an early-stage venture fund, since 2018. Within the past five years, Ms. Sargent has served as president of innovation and new ventures at Flex, a leading global design, engineering, and manufacturing company, from 2012 to 2017. Prior to Flex, she served as chief executive officer of Oerlikon Solar, a thin-film silicon solar photovoltaic module manufacturer, from 2007 to 2010; as executive vice president and general manager of Veeco Instruments, a semiconductor process equipment company, from 2004 to 2007; and as chief executive officer of Voyan Technology, an embedded systems software provider to the communications and semiconductor industries, from 1997 to 2003. She currently serves on several investment and advisory boards and is on the board of trustees at Northeastern University. She holds a bachelor of science degree in chemical engineering from Northeastern University and certificates from the executive development programs at the MIT Sloan School of Management, Harvard University, and Stanford University.

Qualifications: Extensive leadership, operations, marketing and engineering experience within a diverse mix of high technology component and systems companies.

Committees: Compensation, Nominating & Corporate Governance

Michael S. Wishart

Age: 64

Director Since: 2015

Other Public Directorships: None

Former Public Directorships:
Spansion Inc.
Brooktree Corporation

Mr. Wishart has been the chief executive officer since 2015 of efabless Corporation, an early-stage platform for community-based design of semiconductors. Mr. Wishart co-founded efabless in 2014 and has served on its board of directors since then. Mr. Wishart previously served as a managing director and advisory director of Goldman, Sachs & Co. from 1999 until he retired in June 2011. From 1991 to 1999, he served as managing director, including as head of the global technology investment banking group for Lehman Brothers. From 1978 to 1980 and from 1982 to 1991 he held various positions in the investment banking division at Smith Barney, Harris Upham & Co. He served on the board of directors of Spansion Inc. from 2013 until 2015, when it merged with Cypress, and currently serves on the board of OneD Material, a private company engaged in the technology transfer and licensing of proprietary silicon-graphite anode material to improve the performance of lithium ion batteries. In addition, Mr. Wishart has been a venture partner at Tyche Partners, a venture capital firm focused on hardware-related companies, since 2015. Mr. Wishart holds a bachelor of science degree from St. Lawrence University and a master of business administration degree from the Stanford Graduate School of Business.

Qualifications: Extensive experience advising technology companies as an investment banker; also valuable experience as an executive and director.

Committees: Nominating & Corporate Governance (Chair), Compensation

In addition to the biographical information above regarding each nominee's specific experience, attributes, positions and qualifications, we believe that each of our director nominees has performed his or her duties with critical attributes such as honesty, integrity, diligence and an adherence to high ethical standards. Furthermore, each of our current directors has demonstrated strong business acumen and an ability to exercise sound judgment, as well as a commitment to the Company and its core values. Finally, we value their significant leadership and experience on other public company boards and board committees.

Required Vote

Stockholders are not entitled to cumulate votes in the election of directors. Our bylaws provide that, in an uncontested election, each director nominee must receive a majority of votes cast in order to be elected to the Board. A "majority of votes cast" means the number of shares voted "FOR" a director nominee exceeds the number of shares voted "AGAINST" that director nominee. Our Board has adopted a written director resignation policy that requires any incumbent director nominee who receives a greater number of votes "against" than votes "for" his or her election to promptly tender his or her resignation. In the event that an incumbent director nominee is not re-elected, the Nominating and Corporate Governance Committee, composed entirely of independent directors, will evaluate and make a recommendation to the Board with respect to the submitted resignation. The Board must decide whether to accept or reject the resignation within 90 days following the Annual Meeting. No director may participate in the Nominating and Corporate Governance Committee's or the Board's consideration of his or her own resignation. Cypress will publicly disclose the Board's decision to accept or reject the resignation including, if applicable, the reasons for rejecting a resignation.

The election of directors at the 2019 Annual Meeting will not be contested and each director nominee must receive a majority of votes cast in order to be elected to the Board.

☑ **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES NAMED ABOVE.**

PROPOSAL TWO

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board, upon recommendation of the Audit Committee, has reappointed the firm of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2019, subject to ratification by our stockholders.

PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since 1982. A representative of PricewaterhouseCoopers LLP is expected to be present at the 2019 Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and will also be available to respond to appropriate questions.

The Audit Committee is directly responsible for the appointment, compensation, retention, review and oversight of the independent registered public accounting firm retained to audit the Company's financial statements. In conjunction with the rotation of the audit firm's lead engagement partner, the Audit Committee and its Chair in late 2016 were directly involved in the selection of PricewaterhouseCoopers' current lead engagement partner, whose period of service began in 2017. Furthermore, in order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be a rotation of the Company's independent registered public accounting firm.

Stockholder ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our bylaws or other applicable legal requirements. However, the Board is submitting the appointment of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice.

If the stockholders fail to ratify the appointment of our independent registered public accounting firm, the Audit Committee and the Board will reconsider whether or not to retain the firm. Even if the appointment is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of Cypress and its stockholders.

All services provided to Cypress by PricewaterhouseCoopers LLP for fiscal years 2017 and 2018 were pre-approved by the Audit Committee. The Audit Committee is responsible for the compensation of our independent registered public accounting firm and oversees our audit and non-audit fee negotiations with the firm. Fees billed to us by PricewaterhouseCoopers LLP for each of the last two fiscal years were as follows:

Services	2017	2018
Audit Fees	$4,485,115	$4,036,494
Audit-Related Fees	$108,964	$387,825
Tax Fees	$1,413,531	$816,700
All Other Fees	$2,700	$2,700
Total	**$6,010,310**	**$5,243,719**

Audit Fees. Includes fees associated with the annual audit of our financial statements and internal control over financial reporting in compliance with regulatory requirements under the Sarbanes-Oxley Act of 2002, review of our quarterly reports on Form 10-Q, annual report on Form 10-K and periodic reports on Form 8-K, consents issued in connection with our Form S-8 filings, assistance with and review of other documents we file with the Securities and Exchange Commission, and statutory audits required internationally.

Audit-Related Fees. Audit-related services principally include systems pre-implementation review and due diligence services, not associated with the regular audit.

Tax Fees. Includes fees for tax compliance (tax return preparation assistance and expatriate tax services), general tax planning, tax-related services for acquisitions and international tax consulting.

All Other Fees. Includes fees for accessing PricewaterhouseCoopers LLP's online accounting research database.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted a policy that requires advance approval of all audit services, audit-related services, tax and other services performed by the Company's independent registered public accounting firm. With the exception of certain de minimis amounts, unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform such services for Cypress.

Required Vote

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal will be required to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 29, 2019.

☑ **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2019.**

PROPOSAL THREE

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

We are providing our stockholders with an opportunity to cast a non-binding, advisory vote (often called a "say-on-pay" vote) to approve the compensation of our Named Executive Officers as disclosed in this Proxy Statement (including in the Executive Compensation Tables and the section titled "Compensation Discussion and Analysis"). Your vote on this say-on-pay proposal will provide us with valuable insight into our stockholders' view on our executive compensation practices. We hold a say-on-pay vote every year.

Compensation Philosophy. Our Compensation Committee believes in a pay-for-performance approach to executive compensation and has established performance-oriented compensation programs for our executive officers. The core goals of our executive compensation philosophy are to:

- attract and retain top talent for critical positions;
- compensate executive officers at competitive but responsible levels;
- provide equity-based compensation to align our executives' interests with stockholders' interests; and
- emphasize performance-based compensation vehicles to enhance the focus on specific goals and to reward those who make significant contributions to our performance when the goals are achieved.

Key Features of our 2018 Executive Compensation Programs. Our executive compensation programs are designed to attract, motivate and retain our executive officers, who have played critical roles in our ability to drive strong financial results. Under these programs, our executive officers are rewarded for achieving specific short-term and long-term strategic and corporate goals, and for realizing increased stockholder value. The key features of our 2018 executive compensation program include:

- base salary and bonus targets were set at approximately the median for our peer group;
- our short-term incentive (cash bonus) plan funding formula was based on a combination of revenue and pre-tax profit margin targets;
- our long-term incentive (equity award) grants were weighted more toward performance-based awards, including single- and multi-year measurement periods, and weighted less towards service-based awards, with our CEO's 2018 equity award being 70% performance-based and 30% service-based; and
- the goals incentivized by our 2018 long-term incentive grants included: 2018 non-GAAP net income; 2018 new product revenue; 2020 pre-tax profit margin; three-year relative total stockholder return (TSR); and four-year revenue growth relative to semiconductor industry market growth.

Please read the Compensation Discussion and Analysis section of this Proxy Statement for additional information about our executive compensation programs and the compensation awarded to our Named Executive Officers in fiscal 2018.

Alignment with Stockholder Interests. Our Compensation Committee reviews our executive compensation programs to ensure they achieve the desired goal of aligning our executive compensation structure with our stockholders' interests and with current market practices. We have held say-on-pay votes annually since 2011. The results of these votes demonstrate strong stockholder support for our pay practices. The voting recommendations provided by Institutional Shareholder Services ("ISS") and Glass Lewis (the two primary independent proxy advisory firms) and our say-on-pay vote results for the last three years are set forth below:

Annual Meeting	ISS Recommendation	Glass Lewis Recommendation	Stockholder Vote in Favor of our Programs (percent of votes cast)
2018	FOR	FOR	95%
2017	FOR	FOR	82%
2016	FOR	FOR	90%

We believe that stockholder interests are further served by other executive compensation-related policies and practices that we follow, which include:

- We do not have minimum payment levels for our short-term incentive (cash bonus) plan or for our performance-based equity awards.
- We do not provide any material perquisites to our executive officers.
- We do not pay taxes on our executives' behalf through "gross-up" payments or otherwise (other than for a business-related relocation or pursuant to the terms of a broad-based employee program).
- Our change-of-control severance agreements have a "double-trigger" provision (benefits require both a change of control of the Company and termination of employment) rather than a "single-trigger" provision (under which benefits would be triggered automatically upon a change of control).
- We do not reprice "underwater" stock options (stock options where the exercise price is below the then-current market price of our stock) without stockholder approval.
- Our executive officers (and directors) are subject to a stock ownership policy (after an initial-appointment grace period), which requires them to retain a portion of newly vested equity awards until they have satisfied the policy.
- We have a recoupment (or "clawback") policy that allows the Board to recover cash- and equity-based incentive compensation from executives (including each of the Named Executive Officers) in certain circumstances such as if Cypress has to restate its financial results or the executive engages in dishonest conduct.
- We prohibit pledging of, and hedging against losses in, Cypress securities by our executives.
- Our Compensation Committee retains a compensation consultant for independent advice and objective market data.
- Our Compensation Committee oversees our performance-based compensation programs and reserves discretion to ensure payouts are consistent with the Committee's assessment of the Company's performance.
- We carefully monitor and take into account the dilutive impact of our equity awards.
- We seek annual stockholder feedback on our executive compensation program.

This proposal, commonly known as a "say-on-pay" vote, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the compensation philosophy, policies, and practices described in this Proxy Statement. Accordingly, we ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

> "RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2019 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2018 Summary Compensation Table, and the other related tables and disclosure pursuant to Item 402 of Regulation S-K."

The say-on-pay vote is advisory, and therefore not binding on the Company, our Compensation Committee, or our Board. Our Board and our Compensation Committee value the opinions of our stockholders and we maintain an annual investor outreach program. To the extent there is any significant vote against executive officer compensation as disclosed in this Proxy Statement, our Board will consider our stockholders' concerns and our Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Our current policy is to hold a say-on-pay vote each year at the annual meeting of stockholders. After this year's meeting, we expect that the next such vote will occur at the 2020 annual meeting of stockholders.

Required Vote

Proxies received by the Company will be voted "FOR" this proposal unless you specify otherwise in the proxy. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal will be required to approve, on an advisory basis, the compensation of our Named Executive Officers.

☑ THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DESCRIBED IN THIS PROXY STATEMENT.

CORPORATE GOVERNANCE

Our business, assets and operations are managed under the direction of our Board of Directors. Members of our Board are kept informed of our business through discussions with our chief executive officer, our chief financial officer ("CFO"), our chief legal officer, and other Named Executive Officers, members of management (including the internal audit team), and Company employees, as well as our independent auditors, and by reviewing materials provided to them and participating in meetings of the Board and its committees.

In addition to its management function, our Board remains committed to strong and effective corporate governance, and, accordingly, it regularly monitors our corporate governance policies and practices to ensure we meet or exceed the requirements of applicable laws, regulations and rules (including the Nasdaq Listing Rules), as well as the best practices of other public companies.

The Company's corporate governance program has the following features, among others:

- a Board that is up for election annually and has been for over 30 years;
- no stockholder rights plan in place;
- Board committees that include and are chaired solely by independent directors, and that operate under committee charters;
- charters for Board committees that are publicly available on our website, are regularly updated, and which clearly establish the roles and responsibilities of each such committee;
- a Board that has unrestricted access to the Company's management, employees, and professional advisers;
- regular executive sessions among our non-employee and independent directors;
- proxy access provisions in our bylaws, which allow eligible stockholders to include their director nominees in the Company's proxy materials;
- a majority vote standard in uncontested director elections;
- a director resignation policy requiring any incumbent director who receives a greater number of votes "against" than votes "for" his or her election to promptly tender his or her resignation;
- a risk management program with specific responsibilities assigned to management, the Board and the Board's committees;
- a clear Code of Business Conduct and Ethics that is reviewed annually for best practices;
- a clear set of Corporate Governance Guidelines that is reviewed annually for best practices;
- a clawback policy that requires the return of performance-based compensation payments to the Company by any executive (i) engaged in (a) fraud, theft, misappropriation, embezzlement or dishonesty, or (b) intentional misconduct related to the Company's financial reporting, or (ii) in the event of a material negative revision of any financial or operating measure on which performance-based compensation was paid out to such executive;
- a long history of providing no material perquisites to our directors and executive officers;
- an independent compensation consultant that is engaged by the Compensation Committee for objective advice; and
- a director and committee self-evaluation process that allows directors to provide additional feedback on the Board's performance and other matters related to the Company.

In addition to the features above, we have a long-standing stock ownership requirement to ensure that the interests of our directors and executives officers remain aligned with the interests of the Company and its stockholders.

Corporate Governance Guidelines

Our Corporate Governance Guidelines provide the structure and other policies related to our Board. The guidelines cover, among other topics:

- director independence;
- Board structure and composition, including the designated Board committees;
- Board member nomination and eligibility requirements;
- Board leadership and executive sessions;
- limitations on other Board and committee service;
- director responsibilities;
- Board and committee resources, including access to management and employees;
- director compensation;
- director orientation and ongoing education;
- succession planning;
- Board and committee self-evaluations; and
- periodic evaluations of individual directors.

Our current Corporate Governance Guidelines are posted on our investor relations website at *investors.cypress.com/corporate-governance.*

Board Structure

Our Board is currently comprised of nine directors, all of whom are independent except for our chief executive officer, Hassane El-Khoury. There are no family relationships among our directors and executive officers. On November 2, 2018, J. Daniel McCranie, a member of the Board, informed us of his decision not to stand for re-election. Mr. McCranie's decision not to stand for re-election was not the result of any disagreement with the Company. Mr. McCranie will continue to serve as a member of the Board until the election of directors at the 2019 Annual Meeting. The Board has reduced the size of the Board from nine to eight directors, effective upon the election of directors at the 2019 Annual Meeting.

Non-Executive Chairman. Our Board is currently led by an independent director serving as non-executive chairman of the Board (the "Chairman"). Our Board's general policy, as stated in our Corporate Governance Guidelines, is that separate persons should hold the positions of chairman of the Board and chief executive officer to enhance the Board's oversight of management. This leadership structure enhances the accountability of our chief executive officer to the Board, provides a balance of power on our Board, and encourages thoughtful decision-making. We also historically separated the roles in recognition of these benefits. While the CEO is responsible for the day-to-day leadership of the Company and the setting of strategic direction, the Chairman provides guidance to the Board and sets the agenda for and presides over Board meetings as well as meetings of the Board's independent directors. The Chairman also provides performance feedback on behalf of the Board to our CEO.

Board Meetings and Executive Sessions. Executive sessions of independent directors are held at each regularly scheduled meeting of our Board and at other times as deemed necessary by our directors. In fiscal year 2018, our Board held five regularly scheduled meetings, and every director attended all such Board meetings. At such meetings, every independent director attended the executive sessions. The Board also held seven special meetings during fiscal year 2018. During fiscal year 2018, each of our directors attended at least 75% of the aggregate of the total number of meetings of the Board and the committees on which he or she served that were held during the portion of the year for which he or she was a director or committee member. Mr. Albrecht, our Chairman, presided over all executive sessions of our directors in fiscal year 2018. The Board's policy is to hold executive sessions without the presence of management, including the CEO. The committees of the Board also meet in executive session on a frequent basis.

Our directors are expected to attend each of the regularly scheduled board meetings. For that reason, the Board's calendar is set in advance to ensure that all directors can attend all such meetings.

Determination of Independence. The Corporate Governance Guidelines provide that a majority of our directors must be persons who, in the business judgment of the Board, qualify as independent directors under applicable Nasdaq listing standards. The Board has adopted the definition of "independence" as described under Nasdaq Listing Rule 5605 and, with respect to committee members, the standards applicable to the committees on which they serve including the audit committee standards under Section 301 of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Exchange Act, and the compensation committee standards under Section 162(m) of the Internal Revenue Code (the "Tax Code") and Rule 16b-3 under the Exchange Act.

In order to make a determination of independence of a director as required by our Corporate Governance Guidelines and such rules, the Board determines whether a director or a director nominee has a material relationship with Cypress (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with Cypress). Each director or director nominee completes a questionnaire, with questions tailored to the Nasdaq Listing Rules, as well as such other requirements for independence. On the basis of the questionnaires completed and returned by each director, the Board determined that each of Messrs. Albrecht, Kwon, Martino, McCranie, Owens and Wishart and each of Mses. Lego and Sargent is independent as determined under our Corporate Governance Guidelines and the Nasdaq Listing Rules for service on the Board. The Board also determined that each of these directors is independent under the Nasdaq Listing Rules and such other rules for service on the various committees of the Board on which they currently or previously served. The Board determined that Mr. El-Khoury, our president and chief executive officer, is not independent by virtue of his employment and position at Cypress.

The Board considered the transactions described below (none of which involved professional, advisory, or consulting services provided to us by a director) in making its affirmative determination that each non-employee director is independent pursuant to the Nasdaq Listing Rules and the additional standards mentioned above for members of audit committees and members of compensation committees. In each case, the Board affirmatively determined that, because of the nature of the director's relationship with the entity and/or the amount involved, the relationship did not, or would not, interfere with the director's exercise of independent judgment in carrying out his or her responsibilities as a director.

- In the ordinary course of business during fiscal 2018 we purchased approximately $7.0 million in products and services from Lam Research Corporation ("Lam Research") and we owed approximately $0.5 million to Lam Research in connection with those transactions at the end of the fiscal year. In addition, during fiscal 2018, we sold approximately $103,000 in products and services to Lam Research in the ordinary course of business. Ms. Lego has served on the board of directors of Lam Research since 2006. Ms. Lego was not directly involved in the negotiation of our agreements with Lam Research and did not have any role in determining the pricing or terms of these transactions. The annual amounts involved in these transactions did not exceed one percent of the recipient entity's consolidated gross revenues for 2018.
- In the ordinary course of business during fiscal 2018 we sold products and services to other companies for which Mr. Martino, Ms. Sargent, or Ms. Lego served as non-employee directors during fiscal 2018. Our fiscal 2018 sales revenue from these transactions did not exceed $115,000 per company (which is less than 1 percent of our consolidated gross revenues for 2018) and such directors were not directly involved in the negotiation of the agreements and did not have any role in determining the pricing or terms of these transactions.
- In October 2018, we entered into a joint venture agreement (the "Joint Venture Agreement") with SK hynix system ic Inc. ("SKHS"), a South Korean company for which Mr. Kwon serves as a senior advisor. When the transaction closes, we will contribute our NAND flash business and $2.4 million in cash toward the equity of the joint venture ("JV"). The transaction is intended to reduce our exposure to a highly commoditized product line that has traditionally been volatile with low gross margins. The JV will be controlled by SKHS, which is a wholly-owned subsidiary of SK Hynix Inc. (formerly known as Hyundai Electronics, "SKH"). The principal purpose of the joint venture will be the development, manufacture, sale and distribution of NAND flash products and other related products and services using large-scale NAND wafers supplied by SKH. Upon launch, the JV will enter into a supply agreement with SKH, a back-end manufacturing agreement with Cypress, and a transition services agreement with Cypress. Mr. Kwon was employed by SKH for almost 30 years in a variety of roles, most recently as chief executive officer from 2010 to 2013. Mr. Kwon retired

from his chief executive officer position in 2013 but continued to serve as a senior advisor to SKH until December 2017. In January 2018, Mr. Kwon became a senior advisor to SKHS. Mr. Kwon recused himself from our Board's discussion and approval of the Joint Venture Agreement.

Committees of the Board

The Board has a standing Audit Committee, a standing Compensation Committee, and a standing Nominating and Corporate Governance Committee. The current chair and members of each of the standing committees are listed below, along with the number of times each of these committees met during 2018:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
W. Steve Albrecht	Chair		Member
Catherine P. Lego	Member		Member
Camillo Martino	Member	Chair	
Jeffrey J. Owens	Member	Member	
Jeannine P. Sargent		Member	Member
Michael S. Wishart		Member	Chair
Meetings during 2018	**10**	**13**	**8**

Each committee is described below.

Audit Committee

The Audit Committee consists of Messrs. Albrecht (chair), Martino and Owens and Ms. Lego. The Board has determined that each member of the Audit Committee is independent as defined under the Nasdaq Listing Rules and the SEC rules applicable to audit committee members. The Audit Committee operates under a written charter adopted by our Board and reviewed annually by the Audit Committee. The Audit Committee's charter is available on our investor relations website at *investors.cypress.com/corporate-governance*.

The Board determined that each member of the Audit Committee is financially literate and has accounting and/or related financial management expertise as required under the Nasdaq Listing Rules. Our Board further designated each of Mr. Albrecht and Ms. Lego as an "audit committee financial expert" in accordance with the requirements of the SEC and Nasdaq Listing Rules.

The responsibilities of our Audit Committee and its activities during fiscal year 2018 are described in its charter and the Report of the Audit Committee contained in this Proxy Statement.

The Audit Committee, through delegation by the Board, has overall responsibility for:

- overseeing risks related to internal controls, financial reporting, fraud, insurance, treasury, compliance, and litigation;
- reviewing and approving the scope of the annual audit and the adequacy of the Audit Committee charter;
- assisting the Board in the oversight of the Company's compliance with legal and regulatory requirements;
- meeting separately with our independent registered public accounting firm, internal auditors, and our senior management to identify, assess, manage and mitigate areas of risk for the Company;
- overseeing and reviewing our accounting and financial reporting processes, internal audit, and matters relating to the Company's internal control systems, as well as the results of the annual audit;
- ensuring the integrity of the Company's financial statements;
- overseeing and reviewing the independent registered public accounting firm's appointment, qualifications, performance, compensation, retention and independence issues;

- preparing a report of the Audit Committee to be included in the Company's annual proxy statement;
- pre-approving all proposed services and related fees to be paid to our independent registered public accounting firm;
- providing input on the risk assessment processes in the Company, which forms the basis of the annual audit plan;
- overseeing the Company's whistleblower policy and reporting function;
- reviewing SEC filings, earnings releases, and other forms of significant investor communications;
- overseeing the Company's capital structure, financing transactions, acquisitions and divestitures, share repurchase and dividend programs, cash management, income taxes, and legal matters, and policies relating to interest rates and currency hedging;
- reviewing and, if appropriate, approving all related-person transactions; and
- overseeing matters related to the security of, and risks related to, information technology systems and procedures including cybersecurity.

The Audit Committee met 10 times in fiscal year 2018 and, on a quarterly basis, met in executive session separately with each of management, the head of our internal audit team, and representatives of PricewaterhouseCoopers LLP, our independent registered public accounting firm.

Compensation Committee

The Compensation Committee consists of Messrs. Martino (chair), Owens and Wishart and Ms. Sargent. The Board has determined that each member of the Compensation Committee is an independent director within the meaning of the Nasdaq Listing Rules, a non-employee director for purposes of SEC Rule 16b-3 under the Exchange Act, and an outside director for purposes of Section 162(m) of the Tax Code.

The Compensation Committee assists the Board with discharging its duties with respect to the formulation, implementation, review and modification of the compensation of our directors and executive officers, the preparation of the annual report on executive compensation for inclusion in our proxy statement and oversight of the Company's compensation and equity programs.

The Compensation Committee regularly considers the risks associated with our compensation policies and practices for employees, including those related to executive compensation programs. As part of the risk assessment, the Compensation Committee reviews our compensation programs to avoid certain design features that have the potential to encourage excessive risk-taking. Instead, our compensation programs are designed to encourage employees to take appropriate risks and encourage behaviors that enhance sustainable value creation in furtherance of the Company's business, but do not encourage excessive risk and accordingly are not reasonably likely to have a material adverse effect on the Company. The Compensation Committee believes that because we closely link our variable compensation with attaining performance objectives, we are encouraging our employees to make decisions that should result in positive short- and long-term returns for our business and our stockholders without providing an incentive to take unnecessary risks. In fulfilling its responsibilities, the Compensation Committee may, to the extent permitted under applicable law, the Nasdaq Listing Rules, the rules of the SEC and the Tax Code, and the Company's certificate of incorporation and bylaws, delegate any or all of its responsibilities to a subcommittee of the Compensation Committee. The Compensation Committee intends to continue to take risk considerations into account when designing executive compensation programs.

In conjunction with the recommendations of the Compensation Committee's independent compensation consultant, and our CEO, the Compensation Committee determines the compensation of our executive officers. In late 2018, the Compensation Committee's charter was revised to provide that compensation of the CEO will be recommended by the Compensation Committee and approved by the full Board (without participation by the CEO). No officer of the Company was present during discussions or deliberations regarding that officer's own compensation.

The Compensation Committee, through delegation by the Board, has overall responsibility for:

- reviewing and recommending, for Board approval, the base salary, target bonus incentive, and equity grants (including the performance-based metrics for such equity grants) for our CEO;

- reviewing and approving the base salary, target bonus incentive, and equity grants (including the performance-based metrics for such equity grants) for our senior management (excluding the CEO);
- formulating, implementing, reviewing, approving, and modifying the compensation of the Company's directors and senior management (excluding the CEO);
- recommending to the Board for approval the Company's compensation plans, policies and programs, and administering such approved compensation plans, policies and programs;
- reviewing and approving the Company's compensation discussion and analysis for inclusion in the proxy statement;
- reviewing and approving stock budgets for focal equity grants for all eligible employees;
- reviewing the annual benefit changes made by the Company with respect to its employees;
- overseeing the Company's equity incentive plans;
- overseeing and monitoring executive succession planning for the Company (excluding the CEO);
- conducting a periodic risk analysis of the Company's compensation policies and programs; and
- overseeing the Company's diversity and talent management initiatives.

In discharging its duties, the Compensation Committee selects and retains the services of compensation consultants in order to have independent, expert perspectives on matters related to executive compensation, Company and executive performance, equity plans and other issues. The Compensation Committee has the sole authority to determine the scope of services for these consultants and may terminate the consultants' services at any time. The fees of these consultants are paid by the Company. The Compensation Committee retained Pearl Meyer & Partners ("Pearl Meyer") as its compensation consultant for the first half of fiscal year 2018 (through mid-June). In mid-2018, the recently appointed Chairman of the Compensation Committee initiated an evaluation of our overall executive compensation program and, as part of that effort, in June 2018 the Compensation Committee retained Compensia, Inc. ("Compensia") as its new compensation consultant. The Compensation Committee regularly meets in executive session with its independent consultant to discuss various matters and formulate certain final decisions, including those regarding the performance of, and recommendations regarding the compensation of, the CEO.

The Compensation Committee held 13 meetings during fiscal year 2018. The Report of the Compensation Committee is contained in this Proxy Statement. The charter for our Compensation Committee is posted on our investor relations website at *investors.cypress.com/corporate-governance*.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of Messrs. Wishart (chair) and Albrecht and Mses. Lego and Sargent. The Board has determined that each member of the Nominating and Corporate Governance Committee is an independent director within the meaning of the Nasdaq Listing Rules.

The Nominating and Corporate Governance Committee has recommended to the full Board each of the nominees named in this Proxy Statement for election to the Board.

The purpose of the Nominating and Corporate Governance Committee is to:

- determine the skills, size, function, education and experiences the Board needs to most effectively meet its responsibilities;
- as part of its risk management, ensure the Board has the requisite mix of skills and expertise to competently oversee the operations of the Company;
- identify and evaluate individuals qualified to become Board members;
- recommend to the Board the persons to be nominated by the Board for election as directors at the annual meeting of stockholders, including any nomination of qualified individuals properly submitted by stockholders of the Company;
- consider resignations submitted pursuant to the Company's director resignation policy;

- develop, maintain and recommend to the Board a set of corporate governance principles;
- oversee the annual self-evaluation process of the Board and the Board committees, and the periodic process of evaluating individual directors;
- ensure that stockholder proposals are appropriately evaluated;
- make recommendations to the Board on Board committee membership;
- assess and make recommendations to the Board regarding the independence of Board and committee members;
- review and recommend changes to the Company's Code of Business Conduct and Ethics and Insider Trading Policy;
- evaluate, as needed, and address any concerns related to the performance of directors;
- oversee the Company's environmental, social, and governance ("ESG") initiatives; and
- oversee the directors' continuing education program.

With respect to board size, membership and nomination, the Nominating and Corporate Governance Committee is responsible for regularly assessing the size and composition of the Board and identifying exceptional director candidates in the event a vacancy occurs. In this regard, the Nominating and Corporate Governance Committee maintains a director skills matrix, for use in evaluating director competencies and the overall needs of the Board.

The Nominating and Corporate Governance Committee is authorized to retain advisers and consultants and to compensate them for their services. The Nominating and Corporate Governance Committee did not retain any such advisers or consultants during fiscal year 2018.

The Nominating and Corporate Governance Committee held eight meetings during fiscal year 2018. The charter for our Nominating and Corporate Governance Committee is posted on our investor relations website at *investors.cypress.com/corporate-governance*.

Special Committees

The Board also forms special committees and subcommittees from time to time. For example, the Board periodically establishes a Pricing Committee to oversee the pricing and management of the Company's debt structure. The Pricing Committee generally consists of Messrs. Albrecht (chair), and Wishart and Ms. Lego and met several times in fiscal year 2018.

Consideration of Director Candidates

Stockholders may recommend, with timely notice, potential director candidates to the Nominating and Corporate Governance Committee (the "Nominating Committee") by submitting their names and background to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. The Nominating Committee will consider a recommendation only if appropriate biographical information and background materials are provided on a timely basis. See "*How and when may I submit proposals or director nominations for consideration at next year's annual meeting of stockholders?*" in the "*Frequently Asked Questions About The Proxy Materials And Voting*" section of this Proxy Statement for information regarding submitting nominations pursuant to the Company's bylaws.

The Nominating Committee uses a variety of methods for identifying and evaluating nominees for directorships, including requests to Board members, professional outside consultants and other third-party trusted sources. Through the process of identification and evaluation of potential director candidates, the Nominating Committee seeks to achieve a balance of experience, a broad knowledge base, integrity, and capability on the Board. In addition, the Board recognizes the value of diversity, and believes that its membership should reflect a diversity of experience, gender, race, ethnicity, age, and tenure on the Board. Accordingly, the Nominating Committee considers diversity an important element in its consideration of director candidates.

The Nominating Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. Cypress believes that the skill set, background, diversity and qualifications of our directors, considered as a group, should provide a critical composite mix of experience,

knowledge and abilities that will allow our Board to fulfill its responsibilities and act in the best interest of the Company and its stockholders.

The process followed by the Nominating Committee to identify and evaluate nominees includes (i) meeting from time to time to assess the current or potential needs of the Board, as well as to evaluate biographical information and background material relating to potential candidates and, if appropriate, (ii) conducting interviews of selected candidates by members of the Nominating Committee and the Board. Assuming that appropriate biographical and background material is provided for candidates recommended by stockholders, the Nominating Committee will evaluate nominees by following substantially the same process and applying substantially the same criteria as for candidates submitted by the Board to our stockholders. The assessment is made in the context of the perceived needs of the Board at the time of the evaluation.

The Board makes the final determination whether or not a stockholder-recommended candidate will be included as a director nominee for election in accordance with the criteria set forth in our Corporate Governance Guidelines or guidelines previously identified by the Nominating Committee. If the Board decides to nominate a stockholder-recommended candidate and recommends his or her election as a director by the stockholders, the name of the nominee will be included in Cypress's proxy statement and proxy card for the stockholders meeting at which his or her election is recommended.

Proxy Access

In March 2017, the Board amended the Company's bylaws to add a new Section 2.16 to the bylaws, providing eligible stockholders with an alternate process to include their director nominees in the Company's annual meeting proxy materials (the "Proxy Access Bylaw").

Under the Proxy Access Bylaw, any stockholder, or group of up to 20 stockholders, owning 3% or more of the Company's outstanding common stock continuously for at least three years is eligible to nominate and include in the Company's annual meeting proxy materials director nominees constituting up to the greater of two directors or 20% of the directors then serving on the Board of Directors, provided that the nominating stockholder(s) and the director nominee(s) satisfy the requirements and follow the procedures specified in the Proxy Access Bylaw. If an individual proxy access director nominee does not receive at least 25% of the votes cast for election of that nominee, the Proxy Access Bylaw prohibits the re-nomination of that individual under the Proxy Access Bylaw for the next two annual meetings.

Succession Planning

Management Succession. The Board considers succession planning and senior management development to be one of its most important responsibilities. In accordance with the Corporate Governance Guidelines, the Board is responsible for planning for CEO succession and the Compensation Committee is responsible for overseeing the CEO's development of other executive officers. During 2018 the Board engaged in contingency planning so as to be better prepared in the event of an unexpected departure of one or more key executive officers. In fulfilling these responsibilities, the Board and the Compensation Committee consider, among other factors they deem appropriate, the Company's strategic direction, organizational and operational needs, competitive challenges, leadership and management potential, and emergency situations. In addition, on an annual basis, the chief executive officer provides the Board with a performance assessment of senior management and their succession potential to the position of chief executive officer, including in the event of an unexpected emergency, along with a review of any development plans recommended for such individuals. Members of management with high potential to succeed in the Company are provided with additional responsibilities to expose them to diverse areas within the Company, with the goal of developing well-rounded and experienced senior leaders. These individuals may also be positioned to interact more frequently with the Board so that the directors can become familiar with these executives. The Board and the chief executive officer also have the authority to consider persons outside of the Company and to engage third-party consultants or search firms to assist in the succession planning process. In addition, the Compensation Committee is responsible for periodically reviewing the Company's organizational development activities in order to retain and attract top leadership talent. The Compensation Committee reports the summary results of this assessment to the Board.

Director Succession. In accordance with the Corporate Governance Guidelines, evaluation of Board composition is the responsibility of the full Board, with the assistance of the Nominating Committee. As described above under

"Nominating and Corporate Governance Committee," the Nominating Committee regularly reviews the composition of the Board and assesses the balance of knowledge, experience, skills, expertise, and diversity that is appropriate for the Board as a whole. In this regard, the Nominating Committee maintains a director skills matrix, for use in evaluating director competencies and the overall needs of the Board. The Board also discusses the results of the Board's annual self-evaluation to determine what action, if any, would improve Board and committee performance. When it is determined that a new director should be added to the Board or that a successor to a current director is necessary or desirable, the Nominating Committee considers the appropriate mix of experience, skills and other attributes that a director candidate should possess or exhibit in order to complement and enhance the effectiveness of the Board as a whole. Based on these ideal attributes, the Nominating Committee identifies and recommends to the Board individuals qualified to serve as directors of the Company. The full Board then evaluates and selects director nominees for election to the Board at the annual meetings of stockholders and for filling vacancies or new directorships on the Board that may occur between annual meetings. The Nominating Committee may periodically engage a third-party search firm to assist the Nominating Committee and the Board in identifying potential director candidates for appointment to the Board in the event of both planned and unplanned vacancies on the Board.

Board's Role in Risk Management Oversight

Among the responsibilities of our Board is the oversight, review and management of the Company's various sources of risk. The Board addresses this risk, in part, through its engagement with our CEO and various members of management and the Company's outside consultants. Directors also discuss risk as a part of their review of the ongoing business, financial, and other activities of the Company.

In the majority of cases, the Board implements its risk oversight responsibilities primarily through its various committees, which receive input from management on the potentially significant risks the Company faces and how the Company seeks to control, manage, and mitigate risk where appropriate. If the report is deemed significant, the chairman of the relevant committee reports on the committee's discussion to the Board during the committee reports portion of the next Board meeting. This enables the Board and its committees to coordinate risk oversight, particularly with respect to risk interrelationships.

The Board's three standing committees (Audit, Compensation, and Nominating) oversee those risks that are most appropriate to their charters. For example, the Audit Committee oversees risks related to internal controls, financial reporting, fraud, insurance, treasury, cybersecurity, compliance and litigation. In addition, the Board regularly reviews reports from the Audit Committee regarding cybersecurity risk mitigation. The Audit Committee also oversees the activities of the Internal Audit Department, which independently assesses, audits and monitors risk throughout the Company. The Compensation Committee oversees risks related to our cash and equity compensation programs, perquisites, workplace diversity, and use of Company equity for compensation purposes. The Nominating and Corporate Governance Committee oversees risks related to corporate governance, ESG matters, the composition of our Board and its committees, and business ethics of the Company.

Stock Ownership Requirements

Our directors and executives have historically maintained strong stock ownership and our stock ownership requirements are consistent with industry best practices. The table below summarizes the stock ownership policy and status among our directors and Named Executive Officers as of March 1, 2019.

	Stock Ownership Requirement	Shares Actually Held
Chief Executive Officer	6*x* base compensation	11*x* base compensation
All Other Named Executive Officers	4*x* base compensation	6*x* – 12*x* base compensation
All Non-Employee Directors	5*x* annual cash retainer[1]	3*x* – 47*x* annual cash retainer[2]

1. The annual cash retainer for non-employee directors is $50,000.

2. Two directors currently hold company stock with a value of less than 5*x* the annual cash retainer (as of March 1, 2019), both of whom were appointed to the Board within the past two years and are within the initial appointment grace period under our stock ownership policy. Among our other non-employee directors, the ownership range is 14*x* – 47*x* annual cash retainer.

Unvested RSUs do not count toward the stock ownership requirement; neither do unexercised stock options, even if vested and "in the money." Executive officers have three years from their designation as named executive officers to meet the stock ownership requirement; if the requirement is not met after three years, then the executive must hold all future shares that vest (net of taxes) until the stock ownership requirement is met. Non-employee directors are required to meet the requirement within five years of their initial election or appointment to the Board.

As a result of the above requirements, we expect that our directors and Named Executive Officers will continue to hold a substantial amount of their Cypress compensation in shares of Cypress common stock, and maintain alignment with stockholder interests. All executive officers and directors currently comply with these requirements or expect to be in compliance within the required timeframes.

Policies Against Derivatives Trading, Hedging, and Pledging

The Company has a long-standing insider trading policy which regulates trading by our insiders, including our Named Executive Officers and Board members, and prohibits all employees and Board members from trading on material, non-public information. Our policy explains when transactions in Cypress common stock are permitted and provides that insiders may engage in transactions in Cypress common stock only during pre-established quarterly trading windows. The policy also sets forth certain types of prohibited transactions. Specifically, no Company director, employee, agent or contractor may engage in short sales of, or hedge against losses in, Company securities (which includes a prohibition against buying put options on Cypress common stock).

Cypress adopted and formalized a written pledging policy in fiscal year 2014 and the Compensation Committee approved modifications to the policy on February 15, 2017. As of February 15, 2017, Directors and Named Executive Officers are no longer permitted to pledge Cypress stock.

Code of Business Conduct and Ethics

The Board has a Code of Business Conduct and Ethics, which is available on the corporate governance section of our investor relations website at *investors.cypress.com/corporate-governance*.

Our Code of Business Conduct and Ethics applies to our directors and employees, including our principal executive officer, principal financial officer, principal accounting officer, and controller, and to contractors of the Company. The Code of Business Conduct and Ethics sets forth the fundamental principles and key policies and procedures that govern the conduct of our business. We intend to disclose any amendment to, or waiver from, the Code of Business Conduct and Ethics for our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer, and controller or persons performing similar functions, as may be required by applicable SEC and Nasdaq rules by posting such information on our investor relations website, at *investors.cypress.com/corporate-governance*.

Communications from Stockholders and Other Interested Parties

Stockholders and other interested parties who wish to send communications on any relevant business topic to the Board or an individual director may do so by addressing such communication to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California, 95134, or sending an e-mail to CYBOD@cypress.com.

The Board will give appropriate attention to written communication on valid business or corporate governance issues that are submitted by Company stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters, the Chairman of our Board, with the assistance of the Corporate Secretary and internal legal counsel, is primarily responsible for monitoring communications from stockholders and other interested parties, and will provide copies or summaries of such communications to the other directors as the Chairman considers appropriate. Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the Chairman of our Board considers to be important for the directors to know.

Policy on Director Attendance at Annual Meetings

Our Board members are encouraged, but are not required, to attend our annual meetings of stockholders. Messrs. Albrecht, El-Khoury, Kwon, McCranie, Owens and Wishart and Mses. Lego and Sargent attended our annual meeting of stockholders in fiscal year 2018.

Requests for Corporate Governance Documents

Printed copies of the Corporate Governance Guidelines, the Code of Business Conduct and Ethics, and the charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are available to any stockholder upon written request to: Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134.

DIRECTOR COMPENSATION

Non-Employee Director Cash Compensation

Our non-employee directors are paid an annual fee for serving on the Board, plus additional fees based on their committee service. Cash fees for our non-employee directors were not changed from 2009 to 2017. In mid-2018, the Compensation Committee surveyed director compensation arrangements at our peer group companies with the assistance of its independent compensation consultant, Compensia, and recommended that certain of Cypress's non-employee director compensation elements be increased to be in line with the peer median. The Board accepted the Compensation Committee's recommendation as proposed, approving increases in the annual cash fees payable to: (a) the Board chairman (from $30,000 to $65,000), (b) the Audit Committee chairman (from $20,000 to $25,000), and (c) the Compensation Committee chairman (from $15,000 to $20,000), with all such changes to become effective for the third quarter of 2018. In addition, in February 2018 the Board approved an increase in the annual cash fee payable to the Nominating and Corporate Governance Committee chairman (from $5,000 to $10,000) in light of the role's increased duties, with such change to become effective for the first quarter of 2018. The table below shows the annualized cash compensation payable to our non-employee directors before and after such changes.

Position	Annualized Cash Retainers	
	2017[1]	2018[2]
Non-employee director retainer	$50,000	$50,000
Board chairman	$30,000	$65,000
Audit Committee chairman	$20,000	$25,000
Audit Committee member	$15,000	$15,000
Compensation Committee chairman	$15,000	$20,000
Compensation Committee member	$10,000	$10,000
Nominating and Corporate Governance Committee chairman[3]	$5,000	$10,000
Nominating and Corporate Governance Committee member	$5,000	$5,000

1. This column presents the annualized amounts in effect during the first and second quarters of 2018, except as described in footnote (3) below.
2. This column presents the annualized amounts in effect during the third and fourth quarters of 2018.
3. The increased retainer for the chairman of the Nominating and Corporate Governance Committee became effective for the first quarter of 2018 and was in effect for the full year.

In addition to the retainers described above, non-employee directors are also reimbursed for travel and other reasonable out-of-pocket expenses related to attendance at Board and committee meetings, business events on behalf of Cypress, and seminars and programs on subjects related to their responsibilities.

Members of the Pricing Committee did not receive any additional compensation for their service on such committee.

Non-Employee Director Equity Compensation

Upon initial appointment or election to the board, each non-employee director is granted an equity award of restricted stock units ("RSUs") with a grant date value of approximately $200,000, which vests annually over three years. Non-employee directors who are elected at Cypress's annual stockholders meeting also receive an award of RSUs with a grant date value of approximately $200,000, which vests the day before the next annual stockholders meeting (which we refer to as the annual equity grant). The number of units granted is determined by dividing such values by the closing market price of our common stock on the date of grant. The value of the annual equity grant has remained unchanged since 2015. Any new director appointed by the board in between annual stockholders meetings will receive the annual equity grant, but with a value that is pro-rated for the number of months the director serves until the next annual stockholders meeting. Under Cypress's 2013 Stock Plan (the "2013 Plan"),

non-employee directors may not be granted, in any fiscal year, equity awards with a grant date fair value of more than $500,000 (or $750,000 in connection with a director's initial appointment or election to the Board).

Non-Employee Director Compensation Table—2018
The following table presents compensation information for our non-employee directors for fiscal year 2018.

Director	Fees Earned or Paid in Cash ($)	Stock Awards[1] ($)	Option Awards[2] ($)	All Other Compensation ($)	Total ($)
W. Steve Albrecht	125,000	194,713	—	—	319,713
Oh Chul Kwon	50,000	194,713	—	—	244,713
Catherine P. Lego	68,214	194,713	—	—	262,927
Camillo Martino	82,500	194,713	—	—	277,213
J. Daniel McCranie	51,786	194,713	—	—	246,499
Jeffrey J. Owens	69,643	194,713	—	—	264,356
Jeannine P. Sargent	63,214	194,713	—	—	257,927
Michael S. Wishart	75,357	194,713	—	—	270,070

1. The value reported in the "Stock Awards" column represents the aggregate grant date fair value of awards granted in fiscal year 2018, as determined pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718 *Compensation—Stock Compensation* ("FASB ASC 718"). On May 11, 2018, each person listed in this table was re-elected to the Board at the 2018 annual meeting of stockholders and was automatically granted an award of 12,353 RSUs under the 2013 Plan. Each of these awards had a grant date fair value of $194,713 (or $15.7624 per share) and will vest in full on the day before the 2019 Annual Meeting. The grant date fair value of each of these RSU awards calculated under FASB ASC 718 is lower than the $200,000 value described in the section "Non-Employee Director Equity Compensation," above, primarily because RSUs do not have dividend rights. For information on the assumptions used in our grant date fair value computations, refer to Note 10—"Employee Stock Plans and Stock-Based Compensation" in the Notes to Consolidated Financial Statements in our 2018 Form 10-K. The number of outstanding unvested RSUs held at the end of fiscal year 2018 by each person listed in the table above was as follows:
   - Mr. Albrecht: 12,353 RSUs
   - Mr. Kwon: 12,353 RSUs
   - Ms. Lego: 22,077 RSUs
   - Mr. Martino: 22,251 RSUs
   - Mr. McCranie: 22,251 RSUs
   - Mr. Owens: 21,762 RSUs
   - Ms. Sargent: 20,894 RSUs
   - Mr. Wishart: 12,353 RSUs
2. No stock option awards were granted to our directors in fiscal year 2018. The following aggregate director option awards were outstanding at the end of fiscal year 2018: Mr. Wishart held 34,398 options, all of which are Spansion, Inc. ("Spansion") awards issued prior to the merger that were assumed by Cypress and converted into options over Cypress stock pursuant to the merger agreement between Cypress and Spansion.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of Cypress's Board of Directors serves as the representative of the Board with respect to its oversight of:

- Cypress's accounting and financial reporting processes, including the integrity of the Company's financial statements as well as the annual and quarterly audits of such financial statements;
- Cypress's internal controls and the audit of management's assessment of the effectiveness of internal control over financial reporting;
- Cypress's compliance with legal and regulatory requirements;
- Cypress's independent registered public accounting firm's appointment, qualifications and independence, as well as such firm's fees and scope of services;
- risks related to internal controls, financial reporting, fraud, insurance, treasury, cybersecurity, compliance and litigation; and
- the performance of Cypress's internal audit function.

The Audit Committee also provides the Board with such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board.

The charter of the Audit Committee is posted on our website at *investors.cypress.com/corporate-governance*.

Cypress's management has primary responsibility for preparing Cypress's financial statements, establishing the Company's financial reporting process, and developing its internal financial controls. Cypress's independent registered public accounting firm, currently PricewaterhouseCoopers LLP, is responsible for expressing an opinion on the conformity of Cypress's financial statements to generally accepted accounting principles and on the effectiveness of Cypress's internal controls over financial reporting. The Audit Committee reviews the Company's financial disclosures and holds regular executive sessions outside the presence of management with our independent registered public accounting firm. The Committee also meets privately, as needed, with our chief financial officer, our legal counsel and our internal auditors to discuss our internal accounting control policies and procedures as well as any other issues raised by the Committee. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended December 30, 2018, with management, including a discussion of the quality and substance of the accounting principles, the reasonableness of any significant judgment exercised, and the clarity of disclosures in the financial statements. In addition, the Audit Committee reviewed the results of management's assessment of the effectiveness of Cypress's internal control over financial reporting as of December 30, 2018. The Audit Committee reports on these meetings to our full Board.

The Audit Committee hereby reports as follows:

(1) The Audit Committee has reviewed and discussed with management and PricewaterhouseCoopers LLP the audited financial statements in Cypress's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

(2) The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by the Statement on Auditing Standards No. 1301, *Communication with Audit Committees*, including, among other items, matters related to the conduct by PricewaterhouseCoopers LLP of the audit of Cypress's consolidated financial statements.

(3) The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP for Cypress as required by applicable requirements of the Public Company Accounting Oversight Board regarding PricewaterhouseCoopers LLP's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP its independence.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to Cypress's Board, and the Board approved, that the Company's audited financial statements be included in Cypress's Annual Report on Form 10-K for the fiscal year ended December 30, 2018 for filing with the Securities

and Exchange Commission. The Audit Committee also recommended the reappointment of PricewaterhouseCoopers LLP as Cypress's independent registered public accounting firm for fiscal year 2019.

Each member of the Audit Committee that served during fiscal year 2018 was independent as defined under the Nasdaq Listing Rules and the SEC rules applicable to audit committee members during the period in which they served.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, Chairman
Catherine P. Lego
Camillo Martino
Jeffery J. Owens

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes certain information with respect to shares of our common stock that may be issued under our equity compensation plans as of December 30, 2018:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Number of Securities Remaining Available for Future Issuance
Equity Compensation Plans Approved by Security Holders[1]	8,886,713[3]	12.50[6]	38,056,248[7]
Equity Compensation Plans Not Approved by Security Holders[2]	3,926,131[4]	7.71[6]	2,652,081[8]
Total	**12,812,844[5]**	**11.75[6]**	**40,708,329[9]**

1. Plans approved by security holders consist of our 2013 Plan and our Employee Stock Purchase Plan (the "ESPP").

2. Plans not approved by security holders consist of the 2010 Equity Incentive Award Plan (the "2010 Plan"), which we assumed in our merger with Spansion Inc., the 2012 Incentive Award Plan (the "2012 Plan"), which we assumed in our acquisition of Ramtron, and the 1999 Stock Option Plan (the "1999 Plan"), which has expired for new grants but under which previously granted options remain outstanding.

3. Includes 2,222,998 shares underlying stock options and 6,663,715 shares underlying restricted stock units.

4. Includes 202,819 shares underlying stock options and 3,510,138 shares underlying restricted stock units.

5. Includes 1,533,458 performance-based awards at their target vesting level. If such awards were included at their maximum vesting level, the total number of shares subject to outstanding awards would be 14,346,302.

6. Calculated exclusive of outstanding restricted stock units, which have no exercise price.

7. Includes 36,119,534 shares available for award grant purposes under the 2013 Plan and 1,936,715 shares available for future issuance under the ESPP. Shares issued under the 2013 Plan in respect of "full-value awards" (i.e., restricted stock units and other awards with a per share purchase price lower than 100% of the stock's fair market value on the date of grant) count against the 2013 Plan's remaining available balance as 1.88 shares for every one share actually issued. The remaining available balance in the table above reflects such deductions with respect to all of the 2013 Plan's outstanding full value awards. Under the 2013 Plan, shares underlying full value awards that are cancelled or otherwise fail to vest will return to the available-for-grant pool at a ratio of 1.88 to 1.

8. Includes 200,490 shares available for award grant purposes under the 2012 Plan and 2,451,591 shares available for award grant purposes under the 2010 Plan. Shares issued under the 2012 Plan in respect of full-value awards count against the 2012 Plan's remaining available balance as 1.53 shares for every one share actually issued. The remaining available balance in the table above reflects such deductions with respect to all of the 2012 Plan's outstanding full value awards. Under the 2012 Plan, shares underlying full value awards that are cancelled or otherwise fail to vest will return to the available-for-grant pool at a ratio of 1.53 to 1.

9. For purposes of calculating the number of securities remaining available for future issuance, we have deducted outstanding performance-based awards from the available for grant reserve based on their target vesting levels. If such awards were to be deducted based on their maximum vesting levels, the total number of shares available for future issuance would be 38,084,823.

See Note 10 of the Notes to Consolidated Financial Statements in our 2018 Form 10-K for further discussion of Cypress's stock plans.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables present the number of shares of our common stock that were beneficially owned as of March 1, 2019 (except where another date is noted) by:

- known beneficial owners of five percent or more of our common stock;
- each current director and director nominee;
- each Named Executive Officer; and
- all current directors and current executive officers of the Company as a group.

As of March 1, 2019, 364,608,163 shares of the Company's common stock were issued and outstanding (excluding treasury shares).

5% Stockholders	Total Shares Beneficially Owned[1]	Percent of Common Shares Outstanding[2]
The Vanguard Group[3] 100 Vanguard Blvd. Malvern, PA 19355	40,229,398	11.03%
BlackRock, Inc.[4] 55 East 52nd Street New York, NY 10055	35,389,456	9.71%
Waddell & Reed Financial, Inc.[5] 6300 Lamar Avenue Overland Park, KS 66202	20,439,483	5.61%

Directors and Executive Officers	Shares Owned Outright[6]	Right to Acquire within 60 days[7]	Total Shares Beneficially Owned[1]	Percent of Common Shares Outstanding[2]
Non-Employee Directors				
W. Steve Albrecht	149,586		149,586	*
Oh Chul Kwon	60,760		60,760	*
Catherine P. Lego	57,719		57,719	*
Camillo Martino	44,796		44,796	*
J. Daniel McCranie	74,796		74,796	*
Jeffrey J. Owens	14,114		14,114	*
Jeannine P. Sargent	9,609		9,609	*
Michael S. Wishart	77,923	34,398	112,321	*
Named Executive Officers				
Hassane El-Khoury	512,650	28,856	541,506	*
Sam Geha	125,603	9,513	135,116	*
Sudhir Gopalswamy[8]	168,979	9,513	178,492	*
Pamela L. Tondreau	220,180	8,561	228,741	*
Thad Trent[9]	323,117	63,467	386,584	*
All current directors and executive officers of the Company as a group (13 persons)	1,839,832	154,308	1,994,140	0.55%

* Less than 0.5%. See footnotes below.

1. The total shares beneficially owned by each person or group as of March 1, 2019 (except where another date is noted) includes shares of common stock that such person or group held outright on that date (e.g., shares held in a brokerage account) plus shares such person or group had the right to acquire on or within 60 days after that date, including, but not limited to, upon the exercise of options and vesting of restricted stock units. To our knowledge, except as otherwise indicated in the footnotes to this table and subject to applicable community property laws, each stockholder named in the table has the sole power to vote or direct the voting of (voting power), and the sole power to sell or otherwise direct the disposition of (dispositive power), the shares set forth opposite such stockholder's name.
2. For each person and group included in the table, percentage ownership is calculated by dividing the total shares beneficially owned by such person or group as described above by the sum of the 364,608,163 shares of common stock outstanding (excluding treasury shares) on March 1, 2019 plus the number of shares of common stock that such person or group had the right to acquire from the Company on or within 60 days of that date, including, but not limited to, upon the exercise of options and upon vesting and settlement of restricted stock units.
3. Beneficial ownership information for The Vanguard Group is as of December 31, 2018 and is based on information contained in the amendment to Schedule 13G it filed with the SEC on February 11, 2019. Such amendment states that The Vanguard Group has sole voting power over 190,237 shares, shared voting power over 41,966 shares, sole dispositive power over 40,032,521 shares, and shared dispositive power over 196,877 shares.
4. Beneficial ownership information for BlackRock, Inc. is as of December 31, 2018 and is based on information contained in the amendment to Schedule 13G it filed with the SEC on February 4, 2019. Such amendment states that BlackRock, Inc. has sole voting power over 33,891,575 shares, shared voting power over zero shares, sole dispositive power over 35,389,456 shares, and shared dispositive power over zero shares.
5. Beneficial ownership information for Waddell & Reed Financial, Inc. is as of December 31, 2018 and is based on information contained in the amendment to Schedule 13G it filed with the SEC on February 14, 2019. Such amendment states that Waddell & Reed Financial, Inc. and Ivy Investment Management Company have sole voting power and sole dispositive power over 20,439,483 shares.
6. "Shares owned outright" refers to long shares held in brokerage accounts.
7. "Right to acquire within 60 days" refers to (a) shares subject to employee or director stock options that are exercisable on or within 60 days after March 1, 2019 and/or (b) shares subject to employee or director restricted stock unit awards that are scheduled to vest within 60 days after March 1, 2019 (including the estimated number of shares expected to vest during that time period in connection with performance-based stock units).
8. Mr. Gopalswamy and his spouse have shared voting power and shared dispositive power over 98,555 shares, which are held by a living trust for which they both serve as trustees.
9. Mr. Trent and his spouse have shared voting power and shared dispositive power over 172,105 shares, which are held in an account registered to both of them as joint tenants.

COMPENSATION COMMITTEE REPORT

The information in the following report shall not be deemed to be "soliciting material" or "filed" with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Cypress specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

We have reviewed and discussed the following Compensation Discussion and Analysis section with management. Based on this review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Camillo Martino, Chairman
Jeffrey J. Owens
Jeannine P. Sargent
Michael S. Wishart

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis ("CD&A") describes Cypress's executive compensation philosophy, objectives and programs, as well as the material compensation-related actions taken in fiscal year 2018 or to date in 2019 for the officers named below. As required by SEC rules, these are our "Named Executive Officers" (or "NEOs"):

Name	Title
Hassane El-Khoury	President and Chief Executive Officer
Thad Trent	Chief Financial Officer and Executive Vice President, Finance and Administration
Sam Geha	Executive Vice President, Memory Products Division
Sudhir Gopalswamy	Executive Vice President, Microcontroller & Connectivity Division
Pamela L. Tondreau	Executive Vice President, Chief Legal & Human Resources Officer

In this CD&A, the terms "we," "our," and "us" refer to Cypress and its management and sometimes, as applicable, the Compensation Committee of Cypress's Board of Directors (the "Committee" or the "Compensation Committee").

OVERVIEW

2018 Business Highlights

Fiscal year 2018 was a year of execution on our Cypress 3.0 initiatives, including the following accomplishments:

- We generated record GAAP revenue of $2.48 billion, up 7% year-over-year, with automotive GAAP revenue up 13% and industrial GAAP revenue up 11% year-over-year;
- We continued to execute on our gross margin improvement plan; increasing GAAP and non-GAAP gross margin to 37.3% and 47.8%, respectively, in the fourth quarter;*
- GAAP EPS was $.95 compared to a loss of $.24 in 2017;
- Non-GAAP EPS of $1.36 increased 53% year-over-year, 8 times faster than revenue growth;*
- GAAP net cash provided by operating activities increased 17% year-over-year to $472 million, while free cash flow increased 16% year-over-year to $409 million;*
- Design wins were up 24%, led by our Microcontroller and Connectivity Division for which design wins were up 32%;
- After reinitiating our stock buyback program in the second quarter, we repurchased 2.4 million shares in fiscal 2018 for a total cost of $35 million; and
- We signed a definitive agreement to enter into a joint-venture transaction with SK hynix system ic Inc. to exit the more commoditized NAND flash market.

Proxy Statement

* Non-GAAP gross margin, non-GAAP EPS, and free cash flow are non-GAAP financial measures. Each non-GAAP financial measure is adjusted from the most directly comparable GAAP financial measure to exclude certain items. Our non-GAAP financial measures may be calculated differently than similarly-named non-GAAP financial measures presented by other companies. Our presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for information prepared and presented in accordance with generally accepted accounting principles ("GAAP"). Our presentation of non-GAAP financial measures supplements and should be viewed in conjunction with our GAAP financial measures. There are limitations to the use non-GAAP financial measures. Explanations of our non-GAAP financial measures, descriptions of such limitations, and reconciliations of the non-GAAP financial measures above to the GAAP financial measures the Company considers most comparable are included in the appendix to this Proxy Statement (the "Appendix").

Furthermore, our net burn rate for fiscal year 2018 was 1.16%. We calculated this "net burn rate" by dividing our net equity awards granted in 2018 (i.e., shares subject to new equity awards (at target) in 2018, plus any performance-based shares vesting above target in 2018, less shares subject to award forfeitures occurring in 2018) by our non-GAAP weighted average diluted shares outstanding for 2018. This calculation may differ from similarly named metrics used by others.

Responding to our Stockholders

When determining executive compensation, the Compensation Committee considers the results of the annual advisory "say-on-pay" vote cast by stockholders. At our 2018 annual meeting of stockholders, 95% of votes cast were in favor of our executive compensation program. The Compensation Committee believes this result reflects stockholders' strong support for our approach to executive compensation.

The Compensation Committee also believes it is important to continue our dialogue with stockholders to ensure our compensation philosophy and practices remain in sync with stockholder preferences. Accordingly, we maintain a formal stockholder outreach program to solicit feedback on executive compensation and governance. Since last year's annual meeting, we engaged with and received input from investors who together own (as of March 1, 2019) over 30% of our common stock, including 4 of our top 5 investors. In response to stockholder input and montoring of best practices:

- in 2018 and 2019 we continued our use of total stockholder return (TSR) as a performance metric in our long-term incentive equity awards; and
- in 2019 our short-term incentive cash bonus plan will move from quarterly payments to a single annual payment for our top executive officers.

Cypress's Compensation Philosophy

Our Compensation Committee believes in a pay-for-performance approach to executive compensation and has established performance-oriented compensation programs for our executive officers. As explained below, the core goals of our executive compensation philosophy are to:

- Attract, motivate, and retain top talent for positions that are critical to Cypress's success;
- Compensate executives at responsible levels; and
- Emphasize performance-based compensation arrangements under which executives are rewarded for achieving specific short-term and long-term strategic, corporate goals, and enhancing stockholder value.

Attract, Motivate, and Retain Top Talent. We aim to attract, motivate, and retain top talent for the critical positions that will guide our long-term success. We have structured our executive compensation program to motivate our executives to deliver on strategic objectives and to be competitive with compensation paid by companies in the same market for executive talent. Providing competitive compensation is especially important in the Silicon Valley area where we are headquartered. To ensure we remain competitive, our Compensation Committee conducts an annual compensation review to evaluate whether our current levels of cash and equity compensation for each executive are competitive with compensation provided at our peer companies. The Committee then makes adjustments based on merit and other factors.

Compensate Executives at Responsible Levels. Our philosophy is to compensate our executives at competitive but responsible levels, with higher compensation for above-plan performance and lower compensation for below-plan performance. We seek to accomplish this through:

- base salary levels that are generally targeted to the median for comparable positions among our peer group companies;
- target cash incentive awards that approximate the median target award for comparable positions among our peers;
- long-term equity grants generally weighted more toward performance-based awards, with single- and multi-year measurement periods, and weighted less toward service-based awards; and
- standard health and welfare benefits.

See "Determining Compensation Levels" below for a discussion of the general factors we take into account when determining specific compensation levels.

Pay-for-Performance. We use pay-for-performance compensation programs to align executive compensation with our achievements on both a short-term and long-term basis. Our Named Executive Officers' target total direct compensation is heavily weighted toward at-risk, performance-based cash and equity compensation, which currently includes incentive cash bonuses and performance-based stock units. The performance targets established under these programs are challenging and set in advance both at the corporate level, through corporate goals, and at an individual level—for cash bonuses—through individual goals set for each applicable period. This aligns executive compensation with stockholder interests by tying a significant portion of total direct compensation to achieving performance goals designed to promote Cypress's financial and operational success over both the short- and long-term. Compensation is designed to be rewarding when the corporate goals are achieved above target and to result in limited or no payout when the goals are not achieved, with the Compensation Committee providing oversight (and reserving discretion) to ensure payouts are consistent with the Committee's assessment of the Company's performance. In the case of equity awards, the Committee's discretion is limited to so-called "negative discretion" (downward adjustments only); whereas for the cash bonus plan, the Committee's discretion may be exercised to increase or decrease payouts.

Our cash bonus plan, the Cypress Incentive Plan (or "CIP"), provides a good example of how executive pay is tied to performance. Each year we establish corporate goals and individual scorecards comprised of quarterly and annual critical success factors (or "CSFs"). These scorecards are derived from the Company's annual operating plan. The annual operating plan is management's roadmap for the Company's performance for the upcoming year under anticipated conditions. Under the CIP, Cypress's cash bonus is funded (i) above target levels to the extent corporate performance exceeds targeted annual operating plan levels, and (ii) below target if the Company does not achieve key annual operating plan goals. For more information, see "Cypress 2018 Executive Compensation," below.

Cypress's Compensation Processes and Practices

The Role of the Compensation Committee. The Compensation Committee administers all of the Company's equity-based compensation plans and, under its Board-approved charter, is responsible for the formulation, implementation, review, and modification of the compensation of our directors and "Senior Executives" (i.e., our Named Executive Officers and other executives who report directly to the CEO). In this capacity, the Compensation Committee reviews and approves all compensation paid to our executive officers, including salary, bonus, equity compensation, and other employee benefits. In late 2018, the Committee's charter was revised to provide that compensation of the CEO will be recommended by the Committee and approved by the full Board (without participation by the CEO). The Compensation Committee consists entirely of independent directors. As mentioned above, the Compensation Committee seeks to ensure that executive compensation is competitive by targeting each executive's total cash compensation at approximately the 50th percentile for comparable positions among our peer group companies. Target total cash compensation is supplemented by equity awards that are weighted toward performance-based shares. Each executive's total direct compensation will vary depending on Cypress's financial performance, the executive's individual performance and importance to Cypress, and internal fairness considerations among all senior management. Due to our emphasis on performance-based compensation, as Cypress's performance improves, so does the compensation of our executive officers. However, the Compensation Committee may also use its judgment to apply negative discretion to reduce payouts of certain compensation programs.

The Role of the Independent Compensation Consultant. The Compensation Committee works directly with an independent compensation consultant to develop compensation strategies and levels for Cypress's executive officers. The Compensation Committee retained Pearl Meyer as its compensation consultant for the first half of fiscal year 2018 (through mid-June). In mid-2018, the recently appointed Chairman of the Compensation Committee initiated an evaluation of our overall executive compensation program and, as part of that effort, in June 2018 the Compensation Committee retained Compensia as its new compensation consultant. The Compensation Committee typically asks representatives of the compensation consultant to attend its regular meetings, including executive sessions. The compensation consultant is instrumental in assisting the Committee with its annual review of each executive officer's compensation (salary, bonus, and equity award levels) as compared to compensation levels

for comparable positions at our peer group companies. Occasionally, the compensation consultant has also assisted the Committee with a compensation review that considers multi-year wealth accumulation and uses both internal and peer data. The peer group selection and executive-compensation reviews that informed the Committee's February 2018 compensation decisions reported in this CD&A were facilitated by Pearl Meyer using AON / Hewitt Radford survey data and information from our peer group companies' proxy statements. The peer group selection and executive-compensation reviews that informed the Committee's adjustments to severance arrangements in late 2018 and its 2019 compensation decisions (reported as subsequent events in the section of this CD&A titled "Material Compensation Actions for 2019") were facilitated by Compensia.

Pearl Meyer was independent from Cypress's management during its entire tenure, did not provide any services to Cypress other than to the Compensation Committee, and received compensation from Cypress only for services provided to the Compensation Committee. Compensia is also independent from Cypress's management, has not provided any services to Cypress other than to the Compensation Committee, and receives compensation from Cypress only for services provided to the Compensation Committee.

The Role of Management. The CEO makes recommendations to the Compensation Committee about the compensation of the other Named Executive Officers based on their achievement of quarterly, annual and multi-year objectives. While the Compensation Committee is solely responsible for approving executive officer compensation, our human resources' VP of compensation and benefits, our chief legal officer, our CFO, and our CEO all support the work of the Compensation Committee and its compensation consultant. The Compensation Committee meets frequently in executive session without management present.

Peer Group Companies. The Compensation Committee conducts an analysis each year to select a group of peer companies to use for purposes of assessing the competitive market for executive talent. The Committee seeks to select companies that are publicly traded, are headquartered in the United States, compete in the semiconductor industry, are broadly similar to Cypress in their product and service offerings, revenue, size, and market capitalization, and against which Cypress competes for executive talent. Cypress's compensation consultant provides the Committee with analysis and recommendations regarding peer group selection. In mid-2017 and in consultation with the compensation consultant, the Committee made changes to Cypress's peer group for 2018 to better align the group with Cypress's revenue and market capitalization, and to account for mergers and acquisitions within our industry. Specifically, the Committee removed Analog Devices, Inc., Fairchild Semiconductor International, Inc. (which had been acquired by On Semiconductor Corp.), Linear Technology Corporation (which had been acquired by Analog Devices, Inc.), NVIDIA Corporation, Vishay Intertechnology Inc., and Xilinx Inc. from the peer group. The Committee added Integrated Device Technology, Inc., Marvell Technology Group Ltd., and Silicon Laboratories, Inc. to the peer group based on the factors described above. The resulting peer group, which was used for purposes of the comparative review that informed the Committee's compensation decisions made in the first half of 2018, is listed below:

2018 Peer Group Companies	
Advanced Micro Devices, Inc.	Microsemi Corporation
Cirrus Logic, Inc.	ON Semiconductor Corp.
Cree, Inc.	Qorvo, Inc.
Integrated Device Technology, Inc.	Silicon Laboratories, Inc.
Marvell Technology Group Ltd.	Skyworks Solutions, Inc.
Maxim Integrated Products Inc.	Synaptics Incorporated
Microchip Technology Inc.	

As of mid-2017 when this peer group was selected, Cypress ranked at the 46th percentile among these peers in revenue (over the prior twelve months) and at the 36th percentile in market capitalization.

Stockholder-Friendly Practices. We believe that stockholder interests are further served by other executive compensation-related policies and practices that we follow, which include:

- ✓ We do not have minimum payment levels for our short-term incentive (cash bonus) plan or for our performance-based equity awards.
- ✓ We do not provide any material perquisites to our executive officers.
- ✓ We do not pay taxes on our executives' behalf through "gross-up" payments or otherwise (other than for a business-related relocation or pursuant to the terms of a broad-based employee program).
- ✓ Our change-of-control agreements have a "double-trigger" provision (benefits require both a change of control of the Company and termination of employment) rather than a "single-trigger" provision (under which benefits would be triggered automatically upon a change of control).
- ✓ We do not reprice "underwater" stock options (stock options where the exercise price is below the then-current market price of our stock) without stockholder approval.
- ✓ Our executive officers are subject to a stock ownership policy (after an initial-appointment grace period), which requires them to retain a portion of newly vested equity awards until they have satisfied the policy.
- ✓ We have a clawback policy that allows the Board to recover cash- and equity-based incentive compensation from executives (including each of the Named Executive Officers) in certain circumstances such as if Cypress has to restate its financial results or the executive engages in dishonest conduct.
- ✓ We prohibit pledging of, and hedging against losses in, Cypress securities by our executives.
- ✓ Our Compensation Committee retains a compensation consultant for independent advice and objective market data.
- ✓ Our Compensation Committee oversees our performance-based compensation programs and reserves discretion to ensure payouts are consistent with the Committee's assessment of the Company's performance.
- ✓ We carefully monitor and take into account the dilutive impact of our equity awards.
- ✓ We seek annual stockholder feedback on our executive compensation program.

Elements of Compensation

The key components of Cypress's executive compensation program are described below.

Compensation	Objectives	Key Features
Base Salary	Provides a fixed level of compensation to reward demonstrated experience, skills and competencies relative to the market value of the job.	Generally targeted at the 50th percentile for comparable positions among Cypress's peer group (but actual base salary of our NEOs relative to similar positions at peer companies may vary based on each NEO's skills, experience and other factors). Adjustments are considered annually based on individual performance, level of pay relative to the market, and internal pay fairness.
Short-Term Incentive (Cash Bonus) Plan	Rewards achievement of strategic corporate objectives and individual milestones based on a balanced scorecard.	Bonus levels are generally targeted at the 50th percentile for comparable positions among Cypress's peer group. 100% at-risk based on company and individual performance. Funding is based on Cypress meeting revenue and pre-tax profit margin targets, so generally the plan pays out only in profitable periods.
Long-Term Incentive (Equity Award) Program	Aligns with stockholder interests by giving executives an equity stake in Cypress's success.	Typically, equity awards make up the greatest portion of an executive's target total direct compensation opportunity.
• Service-Based Restricted Stock Units (RSUs)	Promote retention and provide a reliable opportunity for wealth creation over time.	Vesting occurs at a steady rate over time as long as the executive remains employed with the Company.
• Performance-Based Stock Units (PSUs)	Align executive and stockholder interests by linking vesting to long-term corporate performance.	Vesting requires both goal achievement and continued employment through scheduled vesting date.
Other Compensation	Ensure the health, welfare, and security of our workforce.	We provide health and welfare plans, and retirement savings plans. Severance benefits for key executives. We do not provide pensions or other material perquisites to our Named Executive Officers.

Determining Compensation Levels

In setting specific salary, target cash bonus, and equity award levels for each Named Executive Officer and our other senior officers, the Compensation Committee considers and assesses, among other factors it may consider relevant:

- The compensation levels at our peer companies for comparable positions, generally targeting each executive officer's total cash compensation opportunity (i.e., base salary plus cash-bonus target) at approximately the 50th percentile for comparable positions among our peer group companies;
- Various subjective factors relating to the individual recipient—the executive's scope of responsibility, prior experience, past performance, advancement potential, impact on results, and compensation level relative to other Cypress executives; and
- As to long-term incentive equity awards, individual performance, level of pay relative to the market, and internal pay fairness.

The Compensation Committee gives no single factor any specific weight. Each executive's compensation level, as well as the appropriate mix of equity award types and other compensation elements, ultimately reflects the Compensation Committee's business judgment in consideration of these factors and stockholder interests.

2018 EXECUTIVE COMPENSATION

2018 Base Salaries

The Compensation Committee targets Named Executive Officer base salaries at approximately the 50th percentile of base salaries of executives with similar positions and experience levels at our peer group companies. In February 2018, Sam Geha, Sudhir Gopalswamy, and Pamela L. Tondreau were each promoted from the senior vice president level to the executive vice president level. At the same time, as part of its annual review of executive compensation, the Compensation Committee reviewed the base salaries of all of our Named Executive Officers and approved the increases shown below to reflect such promotions and to remain competitive with peer group salaries.

Name	Initial Base Salary Rate (Jan-May)	Increase[1]	Adjusted Base Salary Rate (June-Dec)	Actual Base Salary Earned in 2018[2]
Hassane El-Khoury	$650,000	8%	$700,000	$676,923
Thad Trent	$400,000	9%	$435,000	$418,846
Sam Geha	$340,000	3%	$350,000	$345,385
Sudhir Gopalswamy	$340,000	4%	$354,000	$347,538
Pamela L. Tondreau	$360,000	7%	$385,000	$373,461

1. Base salary increases were effective in June 2018.
2. These amounts appear in the "Salary" column of the Summary Compensation Table

2018 Short-Term Incentive Plan (Cash Bonus) Compensation

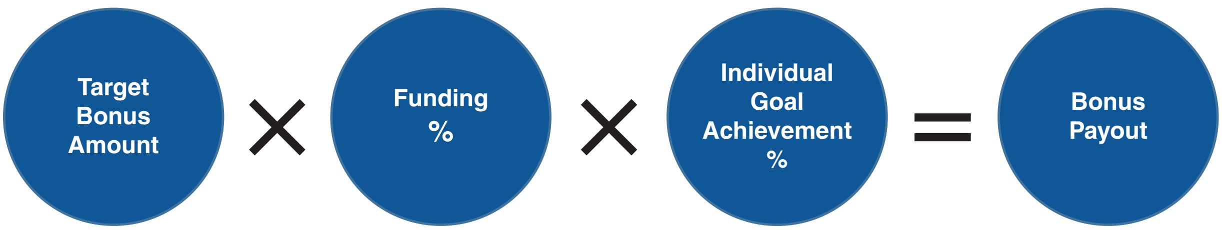
In keeping with Cypress's performance-based compensation philosophy, the Compensation Committee approved the Named Executive Officers' continued participation for 2018 in our short-term incentive cash bonus program, which we call the Cypress Incentive Plan (or CIP).

For 2018, the CIP featured five performance measurement periods, namely each of our four fiscal quarters and our full fiscal year. A cash bonus could be earned for each period, subject to approval by the Compensation Committee at its next regular quarterly meeting (with the fourth quarter and full year bonuses to be paid concurrently).

Most of the Company's workforce participates in the CIP—executives and employees alike—except that the fifth (annual) performance period applies only at the senior vice president level and above. In addition, we maintain separate bonus plans for sales and manufacturing employees.

Under the CIP, the payout for each period is determined by multiplying the executive's target bonus for the period by a Company funding factor and by an individual goal achievement factor as shown below:

Cypress Incentive Plan (Cash Bonus) Formula



There is no minimum bonus payment guaranteed under the CIP, and the Compensation Committee has discretion under the plan to increase or reduce (including to $0) the amount of any bonus otherwise payable to a participant based on performance. We believe that Compensation Committee discretion is appropriate to help mitigate the risks associated with the short-term nature of this bonus plan. Each executive's maximum bonus under the CIP is capped at 250% of his or her target bonus amount.

Target Bonus Amount. The Compensation Committee assigns each Senior Executive a target incentive expressed as a percentage of annual base salary. For each of the five performance periods, each executive's target bonus amount is calculated as one-fifth of his or her target incentive multiplied by his or her annualized base salary rate at the end of the period. In February 2018, the Compensation Committee reviewed the target incentive levels of the Named Executive Officers and determined to increase the target incentive for our CEO, Mr. El-Khoury, from its 2017 level of 125% to a new level of 140% to bring it closer to the peer group median, with such change to take effect for the second quarter concurrently with the base salary adjustment described above. The Compensation Committee kept our other Named Executive Officers at their 2017 levels with target incentives of 70% each for all five performance periods of 2018. The Compensation Committee determined in its judgment that these target incentive levels were appropriate based on its assessment of the factors identified under "Determining Compensation Levels," above.

Funding Percentage. In February 2018, the Compensation Committee decided that the Funding Percentage under the plan would be determined within a range of 0% to 200% based on the Company's attainment of financial goals as well as the Committee's discretionary assessment of the Company's operational performance. The financial performance measures selected by the Compensation Committee for 2018 were as follows:

- revenue as determined under GAAP (or "revenue"); and
- non-GAAP pre-tax profit ("Profit Before Tax" or "PBT") margin calculated before payment of the periodic bonus.

Revenue and pre-tax profit margin are both key metrics used by our management to measure the performance of the business and are reported by the Company in its quarterly earnings release. The Compensation Committee believed it was appropriate to use revenue as a funding metric to maintain management's focus on increasing market share. The Compensation Committee chose to use profit as a financial metric to align the plan with stockholder interests and help ensure that revenue growth was not pursued to the detriment of earnings. Non-GAAP pre-tax profit is a metric the company reports in its earnings materials and is calculated as described in

the Appendix (which is the same manner in which it is calculated for external reporting purposes in the Company's quarterly earnings press releases). The Committee provided for profit to be determined on a non-GAAP basis because our non-GAAP adjustments generally relate to matters not included in our annual operating plan and over which management may be considered to have less control. The Committee provided for profit to be determined on a pre-tax basis as the company's tax liability is determined by a variety of factors, such as prior year net operating loss carryforwards, the results of audit examinations, and changing tax laws, which are not directly related the operational excellence the Committee was seeking to incentivize. The Committee provided for profit to be determined before payment of the bonus, in order to avoid circularity in the formula inasmuch as the cash bonus plan can be viewed as distributing a share of profit to the workforce.

Using those metrics, in February 2018 the Compensation Committee approved a funding matrix for the full-year performance period and also approved matrices for the four quarterly periods calibrated to add up to the annual matrix. The Committee retained the right to make upward or downward adjustments each period to ensure funding was consistent with the Committee's discretionary assessment of the Company's operating performance. The annual funding matrix set a 2018 revenue target representing more than 10% growth over the Company's 2017 revenue result and a pre-bonus PBT margin target representing more than 43% growth over the Company's 2017 PBT result. These levels incentivized management to grow profit more than 4 times faster than revenue, consistent with the Company's "Cypress 3.0" long-term growth model launched at our 2017 analyst day and discussed on our quarterly earnings calls thereafter. However, the matrix was designed so that funding would be zero if revenues came in 7% or more below target for 2018.

Individual Goal Achievement Percentage. The final element of the 2018 CIP was the achievement of individual milestones, which were measurable quarterly and on an annual basis. The individual milestones were proposed by each Named Executive Officer and reviewed, modified as appropriate, and approved in advance by our CEO. The milestones varied by individual and were a mix of short- and long-term goals that focused on factors critical to the success of Cypress, including financial, market share, new customer, new product, quality improvement, and operational initiatives. The milestones for each period were scored on a scale of 0% to 100% (or up to 125% in the case of special "stretch" goals), with each milestone weighted by a specific point value based on its importance to Cypress and/or its level of difficulty. Specific scoring parameters that were used to determine whether the milestone had been achieved were also identified in advance in writing. At the end of each fiscal quarter, or fiscal year, as applicable, the Named Executive Officers "scored" their milestones based on the scoring parameters previously established. Their scores were reviewed, adjusted if necessary, and approved by our CEO. Our CEO's scoring was reviewed by the Compensation Committee and used as a basis for the Committee's determination of each Named Executive Officer's individual bonus.

2018 Cash Bonus Payouts. After the end of each of the five performance periods, the Compensation Committee (a) reviewed the Company's actual performance on the two funding metrics and confirmed the periodic funding percentage in light of the Committee's assessment of the Company's operating performance and (b) reviewed the CEO's scoring of each Named Executive Officer's individual goals and confirmed each individual's goal achievement percentage. For the full-year performance period, revenue was $2.48 billion and pre-bonus PBT margin was 23.6%, corresponding to matrix funding at 122% of target. Although the Committee praised the Company's annual result, the Committee chose to exercise slight downward discretion in light of the Company's slowing growth in the fourth quarter and set funding for the annual performance period at 118%. Full payout results for 2018 are shown below:

Name	2018 Period	Annualized Salary Rate ($)	Target Incentive	Proration[1]	Target Bonus ($)	Funding %	Individual %	Final Cash Bonus[2] ($)
Hassane El-Khoury	Q1	650,000	125%	1/5	162,500	124.0%	90.30%	181,955
	Q2	700,000	140%	1/5	196,000	140.3%	93.19%	256,298
	Q3	700,000	140%	1/5	196,000	120.0%	93.74%	220,476
	Q4	700,000	140%	1/5	196,000	87.5%	68.02%	116,654
	FY	700,000	140%	1/5	196,000	118.1%	75.84%	175,492
							Total bonus:	**950,875**
							Total bonus as a percentage of target:	**100.5%**
Thad Trent	Q1	400,000	70%	1/5	56,000	124.0%	95.00%	65,968
	Q2	435,000	70%	1/5	60,900	140.3%	98.33%	84,028
	Q3	435,000	70%	1/5	60,900	120.0%	99.71%	72,868
	Q4	435,000	70%	1/5	60,900	87.5%	78.02%	41,575
	FY	435,000	70%	1/5	60,900	118.1%	85.57%	61,524
							Total bonus:	**325,926**
							Total bonus as a percentage of target:	**108.8%**
Sam Geha	Q1	340,000	70%	1/5	47,600	124.0%	95.00%	56,073
	Q2	350,000	70%	1/5	49,000	140.3%	105.83%	72,765
	Q3	350,000	70%	1/5	49,000	120.0%	93.12%	54,755
	Q4	350,000	70%	1/5	49,000	87.5%	80.00%	34,300
	FY	350,000	70%	1/5	49,000	118.1%	76.81%	44,434
							Total bonus:	**262,327**
							Total bonus as a percentage of target:	**107.7%**
Sudhir Gopalswamy	Q1	340,000	70%	1/5	47,600	124.0%	56.70%	33,467
	Q2	354,000	70%	1/5	49,560	140.3%	88.90%	61,823
	Q3	354,000	70%	1/5	49,560	120.0%	75.20%	44,723
	Q4	354,000	70%	1/5	49,560	87.5%	49.00%	21,249
	FY	354,000	70%	1/5	49,560	118.1%	43.72%	25,581
							Total bonus:	**186,843**
							Total bonus as a percentage of target:	**76.0%**
Pamela L. Tondreau	Q1	360,000	70%	1/5	50,400	124.0%	90.30%	56,434
	Q2	385,000	70%	1/5	53,900	140.3%	93.33%	70,588
	Q3	385,000	70%	1/5	53,900	120.0%	90.62%	58,613
	Q4	385,000	70%	1/5	53,900	87.5%	68.02%	32,080
	FY	385,000	70%	1/5	53,900	118.1%	77.66%	49,418
							Total bonus:	**267,133**
							Total bonus as a percentage of target:	**100.4%**

1. Prorations of 1/5 convert annual amounts to periodic amounts, as a result of the plan's five performance periods (i.e., four quarterly periods and one annual period).

2. Each Named Executive Officer's total bonus payment appears as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table.

Long-Term Incentive (Equity Award) Compensation

2018 Long-Term Incentive Program

In February 2018, the Compensation Committee approved grants of restricted stock units as part of our Long-Term Incentive (or "LTI") program for 2018. The awards were granted under the Company's 2013 Stock Plan. At the same time, the Committee set the performance goals (or "milestones") under which our executives would be eligible to earn their shares. For the CEO, approximately 70% of the units were allocated to performance-based milestones and approximately 30% were allocated to service-based milestones. For our other Named Executive Officers, the ratio was 55% performance-based to 45% service-based. The Committee weighted the Named Executive Officers' grants toward performance-based units in keeping with our pay-for-performance philosophy.

The service-based component of our 2018 LTI Program is scheduled to vest in three equal annual installments on each of the first three anniversaries of the date of grant. A participant is eligible to earn the service-based shares if he or she remains an employee in good standing of the Company and remains in his or her current role or a similar role and grade level (or is promoted to a higher role or grade level) through the applicable vesting date.

For the performance-based component of our 2018 LTI Program, a participant is eligible to vest only if and to the extent that the performance goals established by the Compensation Committee are satisfied. For each milestone, the Committee established a payout scale to translate performance levels into vesting results. Exact achievement of the performance goal generally translates into vesting of 100% of the target number of shares, with lesser vesting provided for lesser performance and greater vesting provided for greater performance. The 2018 payout scales approved by the Compensation Committee generally provide for a possibility of vesting up to 200% of target. In the stock unit award agreements, the Committee reserved the right to apply so-called "negative discretion" to reduce (including to zero), but not to increase, the number of shares that would otherwise vest based on the performance result. The Committee retained the right to apply negative discretion in order to mitigate the risk inherent in long-term awards that unforeseen changes in circumstance might result in undeserved windfalls to the participants.

Each performance-based stock unit is subject to both performance-based <u>and</u> service-based vesting requirements. This means that, for a participant's units to vest, the participant must (x) satisfy performance-based requirements and (y) remain continuously employed with the Company through the vesting date specified in the award agreement, which is generally the last trading day of February shortly after completion of the applicable performance period.

The table below shows the number of shares of our common stock underlying the awards pertaining to each component (and the percentage they comprise of each Named Executive Officer's total shares granted), at target in the case of performance-based components:

Long-Term Incentive Program Equity Awards Granted in 2018

	2018 Profit After Tax Milestone		2018 New Product Revenue Milestone		2020 PBT (withTSR upside) Milestone		2020 Revenue Growth Milestone		Service-Based (ratably over three years)		Total Award	
Name	shares	%	shares	%	shares	%	shares	%	shares	%	shares	%
Hassane El-Khoury	56,347	17.5%	56,347	17.5%	56,347	17.5%	56,346	17.5%	96,594	30.0%	321,980	100%
Thad Trent	30,684	27.5%			30,684	27.5%			50,210	45.0%	111,578	100%
Sam Geha	27,245	27.5%			27,244	27.5%			44,582	45.0%	99,071	100%
Sudhir Gopalswamy	31,842	27.5%			31,842	27.5%			52,105	45.0%	115,789	100%
Pamela L. Tondreau	26,478	27.5%			26,478	27.5%			43,328	45.0%	96,284	100%

The performance milestones, performance periods, targets, and payout scales for each award were as follows:

Performance Milestone[1]	Performance Period	Target	Payout Scale or Range[2]
Profit After Tax	2018	$410.1 million	• achievement ≤ $324.3 M: 0% vest • achievement = $410.1 M: 100% vest • achievement ≥ $461.0 M: 200% vest
New Product Revenue	2018	$328 million	• achievement ≤ $295 M: 0% vest • achievement = $328 M: 100% vest • achievement ≥ $360 M: 200% vest
Profit Before Tax (PBT) Margin	2020	(4)	Payout range is 0% to 100%[4]
Cypress's TSR relative to S&P Semiconductors Index (PBT upside measure[3])	2018-2020	(4)	Payout range is 0% to 100%[4]
Cypress Revenue Growth relative to Semi Market Growth (over 2016 base year)	2020	(4)	Payout range is 0% to 200%[4]

1. All milestones are calculated on a non-GAAP basis consistent with the non-GAAP adjustments we make for external reporting purposes as described in the Appendix.
2. For achievement between the stated levels, vesting is determined by linear interpolation.
3. The TSR milestone provides upside to the PBT milestone. This means that TSR-based vesting is contingent on the PBT goal first being achieved above its minimum level. Assuming the PBT goal is achieved above its minimum level for 2020, then additional shares may be earned under the TSR goal (based on Cypress's three-year relative TSR for the performance period beginning January 1, 2018 and ending December 31, 2020). The number of such additional shares will be determined by applying the TSR-based vesting percentage to the original target number of shares subject to the PBT goal. The separate payout scales for PBT and TSR are each capped at 100%, so the additive effect of the two measures is to provide potential vesting of up to 200% of those target shares.
4. Specific targets and payout-scale details will be disclosed upon completion of the applicable performance periods.

As shown in the grants table above, half of each executive's performance-based units granted in 2018 were allocated to the 2018 performance period and half were allocated to 2020. This bimodal distribution stands in contrast to the 2017 grant of performance-based units, which was allocated one-third per year over three years. For 2018, in consultation with the compensation consultant, the Compensation Committee decided to adopt the new bimodal incentive structure, omitting the middle tranche in order to emphasize the tangible prospect of near-term vesting and the upside opportunity of longer-term appreciation. The Committee intended to use this allocation for future-year grants as well, which would mitigate the lower vesting opportunity in year two that would otherwise be caused by the bimodal approach.

For the longer-term 2020 milestones, the Compensation Committee set goals on a relative basis—the profit (PBT) goal was set relative to Company revenue (as profit margin); the TSR goal was set relative to a semiconductor index; and the revenue growth goal was set relative to the semiconductor market. The Committee believed relative goals would be more likely to remain relevant, challenging, and motivating for our executives regardless of the macro-economic environment of future years.

Each performance milestone is further described below.

- *2018 Profit After Tax Milestone:* Profit After Tax is another name for the metric we report in our quarterly earnings release as "non-GAAP net income." This is a key metric used by management to measure the performance of our business. The Compensation Committee chose non-GAAP net income as a milestone (and as the near-term prong of the new bimodal incentive structure) because remaining profitable and growing income is a critical imperative for our Company.

- *2018 New Product Revenue Milestone (CEO only):* "New Product Revenue" means revenue arising from sales of recently introduced products (as further defined in the award agreement). This is not a metric we report externally. The Compensation Committee chose New Product Revenue as a milestone because shifting our product mix generally toward newer, higher-margin devices and away from older, lower-margin devices is an essential step toward achieving our long-term gross margin and operating margin targets. The Committee chose to assign this milestone to the CEO only, allocating his 2018 performance-period shares evenly between this milestone and the Profit After Tax milestone discussed above. By comparison, other executives' 2018 performance-period units were allocated entirely to the Profit After Tax milestone. In the Committee's view, this allocation struck an appropriate balance between incentivizing the CEO's new product evangelism efforts while helping to ensure that quality and support standards remain high for legacy products.
- *2020 Profit Before Tax (PBT) Margin Milestone:* PBT Margin is another name for the metric we report in our earnings release as "non-GAAP pre-tax profit margin." This milestone is similar to 2018 Profit After Tax (discussed above), except this milestone applies to 2020 and represents the long-term appreciation prong of the new bimodal incentive structure. Similar to Profit After Tax, the Compensation Committee selected PBT as a goal because remaining profitable and growing income is a critical imperative for our Company. The Committee provided for profit to be determined on a *pre-tax* basis for the 2020 milestone because the company's tax liability is determined by a variety of factors, such as net operating loss carryforwards, the results of audit examinations, and changing tax laws, which are not directly related to the operational excellence the Committee was seeking to incentivize and which are difficult to predict three years in advance.
- *2018–2020 Relative Total Stockholder Return (TSR) Milestone (an upside measure):* Total stockholder return (or TSR) means the stock price appreciation generated by an investment in a company's common stock held for a specified period and is generally calculated as the percentage change in the market price of the stock at the end of the period (plus reinvested dividends) compared to its beginning price. For this milestone, TSR will be measured over the period beginning January 1, 2018 and ending December 31, 2020 and assumes reinvestment of dividends at the closing price on the ex-dividend date. Beginning price and ending price are defined as the trailing 20 trading-day average closing price. Cypress's three-year TSR will be ranked against the TSR of each of the other companies in the S&P Semiconductors Select Industry Index (the "S&P Semiconductors Index") and this milestone's vesting percentage will be based on our percentile rank within that group according to the payout scale in the award agreement. The Compensation Committee chose TSR as a milestone to align compensation with stockholder interests. The Committee designed the award so that the TSR milestone provides upside to the PBT milestone. This means that TSR-based vesting is contingent on the PBT margin goal first being achieved above its minimum goal level (i.e., the minimum level for which some payout is provided in the award agreement). Assuming PBT margin exceeds such minimum goal level in 2020, then additional shares may be earned based on the relative TSR goal. The number of such additional shares will be determined by applying the TSR-based vesting percentage to the original target number of shares subject to the PBT goal. The separate payout scales for PBT and TSR are each capped at 100%, so the additive effect of the two measures is to provide potential vesting up to 200% of those target shares.
- *2020 Cypress Revenue Growth Relative to Semiconductor Market Growth over 2016 Base Year (CEO Only):* The Compensation Committee chose revenue growth as the 2020 CEO-only milestone for reasons that are similar to its choice of New Product Revenue as the 2018 CEO-only milestone: the Committee wanted to give the CEO an extra incentive to focus on growing market share over the long term. The Committee selected the year of Mr. El-Khoury's appointment as CEO (2016) as the base year in order to measure our growth under his leadership. Our fiscal 2016 revenue will be compared to our fiscal 2020 revenue and our percentage growth over that period will then be compared to the percentage growth of the semiconductor market over the same period. The ratio of our growth to market growth will determine the vesting percentage as per the payout scale set forth in the award agreement. This milestone can be seen as rewarding the cumulative effect of the Cypress 3.0 strategy Mr. El-Khoury developed and is implementing. The Committee set this growth goal relative to semiconductor market growth, defining market size as the mean of the industry estimates published by Gartner and WSTS. This approach was taken because the Committee considers it vital to Cypress's long-term success that we outgrow the market in our high-margin strategic verticals (automotive, industrial, and Internet of Things). The Committee provided for market revenue growth to be calculated excluding DRAM because the Company does not compete in that market segment.

The Compensation Committee intended the performance goals to be challenging but achievable. The Compensation Committee generally set the 2018 (near-term) goals' target performance levels equal to the levels called for by the Company's annual financial plan approved by the Board. Setting performance targets by reference to the annual Board plan results in target vesting if the plan is achieved, above target rewards for above-plan performance, and below-plan vesting for below plan performance (which approaches target as performance increases toward the plan level). As shown above the Compensation Committee's payout scales generally specified minimum performance levels below which no shares would be earned. The Committee believed it was appropriate to incentivize management in this manner to achieve and exceed the Board's 2018 plan.

The Compensation Committee provided for each of the above milestones (other than TSR) to be determined on a non-GAAP basis, consistent with the non-GAAP adjustments we make for external reporting purposes as described in the Appendix. As mentioned above, Profit After Tax is reported in our earnings materials as "non-GAAP net income" and PBT margin is reported in our earnings materials as "non-GAAP pre-tax profit margin." Although the Committee also provided for the revenue milestones to be calculated on a non-GAAP basis, no non-GAAP adjustments were applicable to the Company's revenue reporting during 2018. Revenue for the 2016 base year comparison period will be calculated on a non-GAAP basis as originally reported in our 2016 earnings release dated February 2, 2017 (i.e., adjusted to include certain intellectual property licensing revenue of an acquired company as described in the Appendix). Determining the milestones on a non-GAAP basis is appropriate, in the Committee's view, because the Company's non-GAAP adjustments generally relate to matters not included in the Company's annual financial plan and over which management may be considered to have less control. Determining 2016 revenue on a non-GAAP basis is appropriate because the acquired company's licensing revenue would have been included in our 2016 GAAP revenue but for the effect of the purchase accounting. (Note that including such licensing revenue for the 2016 base year makes the revenue growth milestone more difficult to achieve.) The Committee further provided for each of the above milestones (other than TSR and New Product Revenue) to be adjusted for mergers, acquisitions, or divestitures occurring after the grant date. No such transactions were included in the 2018 annual financial plan and therefore no such transactions were incorporated into the 2018 goals. The purpose of all of these adjustments is to mitigate extraordinary events that may occur during the performance period and align payouts with measures that reflect management's actual performance over the period.

In February 2019, the Compensation Committee determined that our actual performance and the corresponding vesting percentages were as follows with respect to LTI milestones with 2018 performance periods and, accordingly, the target units allocated to each milestone vested at the percentages shown below on the scheduled vesting date (the final trading day of February 2019):

2018 Performance Milestone[1]	Actual Performance	Actual Performance as a Percentage of Target	Vesting Percentage
Profit After Tax	$509.0 million[2]	124.1%	200%
New Product Revenue	$327.3 million[3]	99.8%	98%

1. All milestones are calculated on a non-GAAP basis consistent with the non-GAAP adjustments we make for external reporting purposes as described in the Appendix.

2. This is the full-year 2018 non-GAAP net income amount reported in our January 31, 2019 earnings release. Please refer to the Appendix in this Proxy Statement for a description of our non-GAAP adjustments and an explanation of how this amount was calculated (see the GAAP to non-GAAP reconciliation of non-GAAP net income).

3. Although the Committee provided for milestone goals to be calculated on a non-GAAP basis, no non-GAAP adjustments were applicable to New Product Revenue during the periods presented and, accordingly, this amount was calculated in accordance with GAAP.

Shares Earned in 2018 under our 2017 Multi-Year Performance Accelerated Restricted Stock (PARS) Program

In March 2017, each of the Named Executive Officers received an award of performance-based stock units under our long-term incentive program for 2017, which we called the "PARS" program and which was structured similarly to the 2018 LTI program except that vesting opportunities were uniform over three years rather than bimodal. The

2017 PARS program is described in detail in the CD&A section of last year's proxy statement under the caption "2017 Multi Year Performance Accelerated Restricted Stock (PARS) Program." Those 2017 grants had two milestones with 2018 performance periods and, accordingly, in 2018 our Named Executive Officers had an opportunity to vest in that portion of their 2017 PARS awards.

The table below shows the number of shares (at target) underlying each PARS milestone with a 2018 performance period:

Name	Q4'18 Non-GAAP Gross Margin Milestone (shares)	2018 Cypress Revenue Growth Relative to Semi Market Growth (over 2016 base year) (shares)	Total (shares)
Hassane El-Khoury	31,710	31,710	63,420
Thad Trent	11,499	11,499	22,998
Sam Geha	10,454	10,454	20,908
Sudhir Gopalswamy	10,454	10,454	20,908
Pamela L. Tondreau	9,408	9,408	18,816

The performance milestones, performance periods, targets, and payout scales (as established by the Compensation Committee in March 2017) for each of those PARS components were as follows:

Performance Milestone[1]	Performance Period	Target	Payout Scale[2]
Non-GAAP Gross Margin	Q4'18	47.9%	• achievement ≤ 43.0%: 0% vest • achievement = 47.9%: 100% vest • achievement ≥ 50.0%: 200% vest
Cypress Revenue Growth relative to Semi Market Growth (over 2016 base year)	2018	1.2*x*	• achievement ≤ 0.8*x*: 0% vest • achievement = 1.2*x*: 100% vest • achievement ≥ 1.6*x*: 200% vest

1. All milestones are calculated on a non-GAAP basis consistent with the non-GAAP adjustments we make for external reporting purposes as described in the Appendix.
2. For achievement between the stated levels, vesting is determined by linear interpolation.

These 2018 performance milestones are described below.

- *Q4'18 Non-GAAP Gross Margin:* This milestone was chosen in reference to the "Cypress 3.0" strategy we shared with investors at our 2017 Analyst Day. The performance period set by the Compensation Committee (Q4'18) was the final period for which a specific numeric outlook was stated in the Analyst Day presentation, and the goal set by the Committee (non-GAAP gross margin of 47.9%) was the performance level management committed to pursue in that presentation. The Committee set this milestone's maximum performance level equal to the long-term goal given in that same Analyst Day presentation (namely, non-GAAP gross margin of 50.0%). The Committee provided for this milestone to be determined on a non-GAAP basis for the reasons described above with respect to the LTI milestones.
- *2018 Cypress Revenue Growth Relative to Semiconductor Market Growth (over 2016 Base Year):* The Compensation Committee chose revenue growth as a milestone because an essential step of the Cypress 3.0 strategy is increasing market share in our key automotive, industrial, and Internet of Things target markets. The Committee selected the year of Mr. El-Khoury's appointment as CEO (2016) as the base year in order to measure our performance under his leadership. The Committee set the multi-year goal on a relative basis (compared to semiconductor market growth over the same period) because the Committee believed a relative goal would be more likely to remain relevant, challenging, and motivating for our executives regardless of the macro-economic environment in future years. The Committee defined semiconductor market size as the mean of the estimates published by Gartner and WSTS. For both the Company and the market, the Committee provided for revenue growth to be calculated excluding DRAM because we do not compete in that segment.

In February 2019, the Compensation Committee determined that our actual performance, and the corresponding vesting percentages, were as follows with respect to the PARS milestones with 2018 performance periods:

Performance Milestone[1]	Actual Performance	Actual Performance as a Percentage of Target	Vesting Percentage
Q4'18 Non-GAAP Gross Margin	47.8%[2]	99.8%	99%
2018 Revenue Growth relative to Semi Market Growth (over 2016 base year)	27.9%[3] vs 23.9%[4] or 1.17x	97.5%[4]	91%[4]

1. All milestones are calculated on a non-GAAP basis consistent with the non-GAAP adjustments we make for external reporting purposes as described in the Appendix.

2. This is the fourth quarter 2018 non-GAAP gross margin amount reported in our January 31, 2019 earnings release. Please refer to the Appendix in this Proxy Statement for a description of our non-GAAP adjustments. This amount is calculated by adjusting our fourth quarter 2018 GAAP gross margin of 37.26% for the following items (expressed as percentages of revenue for the quarter): stock based compensation of 0.64%; amortization of intangible assets of 8.20%; loss on assets held for sale of 1.80%; restructuring costs, including severance, of 0.02%; and changes in value of deferred compensation plan of (0.08%). See also the GAAP to non-GAAP reconciliation of non-GAAP gross margin in the Appendix.

3. Although the Committee provided for milestone goals to be calculated on a non-GAAP basis, no non-GAAP adjustments were applicable to Cypress's 2018 revenue and, accordingly, our fiscal 2018 revenue was calculated in accordance with GAAP at $2.484 billion as reported in our January 31, 2019 earnings release and 2018 Form 10-K. Our revenue for the fiscal 2016 base year was calculated as presented in our 2016 earnings materials by adjusting our fiscal 2016 GAAP revenue of $1.923 billion to include $19 million of intellectual property licensing revenue of an acquired company (as described in the Appendix), for total fiscal 2016 non-GAAP revenue of $1.942 billion. Cypress's revenue growth for 2018 over 2016 is calculated as the year-over-year growth from $1.942 billion in 2016 to $2.484 billion in 2018, or 27.9%.

4. Results shown for the revenue growth milestone are our current best estimate. Actual market growth data for 2018 was not available at the time of the Committee's vesting determinations in February 2019. Accordingly, this milestone is being held open until final data becomes available (expected in May 2019). Amounts shown above are based on the Company's actual growth (which is final) and currently available third-party estimates of market growth.

Other Compensation/Benefits/Perquisites

Non-Qualified Deferred Compensation Plans. Cypress maintains unfunded, non-qualified deferred compensation plans. Each year, these plans allow eligible participants, including our Named Executive Officers, voluntarily to defer receipt of a percentage of up to 75% of their base salary and up to 90% of their cash bonus payments, as the case may be, earned in such year until the date or dates elected by the participants, thereby allowing participating executives to defer taxation on such amounts. There are two non-qualified deferred compensation plans available. Plan I offers a choice of 68 mutual funds in which to invest deferred compensation and, for participants who enrolled prior to December 31, 2015, pays a death benefit equal to two times the participant's contributions to the plan through such date. Plan II offers a vast array of broker-assisted investment options. In other respects, the two plans are generally identical. All eligible employees have the option to choose one plan in which to participate. We do not make any company-paid contributions to the deferred compensation plans and we do not guarantee returns on the investments. Withdrawals and other distributions are subject to the requirements of Section 409A of the Tax Code. Participant deferrals and investment gains and losses are liabilities of the Company and the underlying assets are subject to the claims of our general creditors. None of our Named Executive Officers contributed to either plan in 2018, but prior contribution balances remain invested. Please refer to "Executive Compensation Tables—Non-Qualified Deferred Compensation Table" for a summary of investment performance in fiscal year 2018.

Other Programs Open to All Employees. The Named Executive Officers are also eligible to participate in the health and welfare programs, employee stock purchase plan, and other benefit programs that the Company makes available to its employees generally, including the following programs that resulted in Summary Compensation Table entries for 2018:

- ***Group Term Life Insurance.*** The Company provides group term life insurance coverage to all employees, including the Named Executive Officers, with a death benefit equal to three times annual base salary. The value of the premiums paid by the Company for the benefit of each executive appear as "Other Compensation" in the Summary Compensation Table.
- ***401(k) Plan.*** The Company's 401(k) plan provides for Company-paid matching contributions of up to $1,000 per year (matching 50% of the employee's contributions up to $2,000). All of our Named Executive Officers received the maximum matching payment in 2018, which appear as "Other Compensation" in the Summary Compensation Table.
- ***Health Savings Accounts.*** Each of the Company's high-deductible health plans is offered in tandem with a tax-advantaged health savings account (or "HSA") and provides for Company-paid contributions to participants' HSAs in an amount equal to half of the participant's deductible. Messrs. El-Khoury, Trent, and Geha and Ms. Tondreau received Company-paid HSA contributions under this program in 2018, which appear as "Other Compensation" in the Summary Compensation Table.
- ***Patent Bonus Program.*** The Company's patent bonus program rewards employees who are named as inventors in patents newly issued to the Company. Employee inventors share a $3,000 bonus per patent. Mr. El-Khoury received $500 under this program in 2018 for being one of six inventors named in a patent newly issued to the Company, which appears as "Bonus" in the Summary Compensation Table.
- ***Employee Recognition Program.*** The Company's Proactive Problem Solutions (or PROPS) program allows employees to nominate peers for outstanding performance and provides for automatic rewards upon certain milestones. Reward vouchers can be redeemed for merchandise and the program provides a tax gross-up to recipients. In 2018, Mr. Gopalswamy received an automatic 10-year service reward voucher for $500 (and a corresponding tax gross-up of $425) under this program, which appear as "Other Compensation" in the Summary Compensation Table.

We do not provide other material perquisites to our executive officers.

Severance and Change of Control Severance Arrangements

We have entered into agreements with our Senior Executives (including each of the Named Executive Officers) to provide severance if their employment terminates in certain circumstances. Mr. El-Khoury's severance arrangements are set forth in his employment agreement and our other Senior Executives' arrangements are set forth in separate Change of Control Severance Agreements. In mid-2018, the Compensation Committee surveyed severance arrangements at our peer group companies with the assistance of its independent compensation consultant and authorized the Company to amend the agreements with our Senior Executives as described below, which occurred in December 2018. The severance arrangements, as amended, are described in detail in the section of this Proxy Statement captioned "Executive Compensation Tables—Potential Payments Upon Termination or Change of Control."

Importantly, the Company does *not* provide any severance benefits (commonly called "single-trigger" benefits) that would become payable upon a change of control alone (i.e., without any related termination of the executive's employment).

Mr. El-Khoury's severance arrangements generally provide for equity acceleration and 24 months of salary, target bonus, and COBRA (continued health and welfare plan) benefits in the event the Company terminates his employment without "cause" or he resigns for "good reason," as further defined in his amended and restated employment agreement. Mr. El-Khoury is entitled to the same set of benefits upon any qualifying termination, regardless of whether or not it occurs in connection with a change of control. The December 2018 amendments:

- clarify the extent of equity acceleration to which Mr. El-Khoury would be entitled in connection with performance-based equity awards (specifically, upon a qualifying termination of employment, performance-vesting equity compensation awards granted after the effective date of the amendment would vest assuming

attainment of the underlying performance targets at the 100% target level (or at the greater of actual performance levels or 100% of target levels if such termination occurs following the completion of the relevant performance period but before the relevant vesting date), unless the terms of such performance-vesting equity awards provide for different severance acceleration terms, in which case such different terms would control); and

- provide that if any of Mr. El-Khoury's benefits would be considered "excess parachute payments" under the Tax Code, then his benefits will be reduced to the extent necessary to avoid the excise tax, but only if a reduction in benefits would result in a higher net (after-tax) payment than if the benefits were not reduced.

The benefits to which our other Senior Executives are entitled depend upon whether the employment termination occurs during a "Change of Control Period" (starting 3 months before and ending 24 months after a change of control), with lesser protections and lower benefits applying outside the Change of Control Period. In general:

- *outside* a Change of Control Period, benefits arise only upon a termination of the executive's employment by the Company without "cause," do not include any equity acceleration or bonus, and consist mainly of nine (9) months of salary and COBRA;
- *within* a Change of Control Period, benefits also arise upon a resignation by the executive for "good reason," do include equity acceleration, and provide for eighteen (18) months of salary and COBRA, plus eighteen (18) months of target bonus.

For our Senior Executives other than Mr. El-Khoury, the December 2018 amendments: added coverage outside the Change of Control Period as described above; extended the Change of Control Period from 12 to 24 months; increased the salary/bonus/COBRA benefit for a termination of employment within the Change of Control Period from 14 to 18 months; and clarified that acceleration of performance-based equity awards would be subject to any different acceleration terms contained in the performance-based award agreements. Additionally, the amendments clarified that after a change of control, executives other than the chief financial officer and chief legal officer will *not* have "good reason" to resign merely by virtue of changes in title and position that accompany becoming part of a larger acquiring entity.

The Compensation Committee believes that providing our Senior Executives with specified benefits in the event of a termination of employment by Cypress without "cause" (or by the executive for "good reason" in certain circumstances) is consistent with competitive practices. It also helps us retain executives and maintain leadership stability. Furthermore, the Compensation Committee believes that adopting uniform terms, as reflected in the above agreements, helps to ensure that our executives are treated fairly and consistently, and helps the Company avoid the need to negotiate severance in connection with each termination of employment.

RISK CONSIDERATIONS

Risk Assessment

The Compensation Committee regularly considers the risks associated with Cypress's compensation policies and practices for employees, including those related to executive compensation programs. As part of the risk assessment, the Compensation Committee reviews Cypress's compensation programs to avoid certain design features that have the potential to encourage excessive risk-taking.

Material risk in our compensation program design is mitigated in several ways, including:

- we have an appropriate mix of pay elements, with compensation well-balanced between fixed and variable elements, and short-term and long-term incentives;
- base salaries are intended to constitute a sufficient component of total compensation to discourage undue risk taking in order to meet incentive goals;
- incentive plans are designed with goals that are intended to result in long-term value to our stockholders;
- financial and earnings goals and opportunities in our incentive programs are at levels intended to be attainable without the need to take inappropriate risks;
- bonus and incentive opportunities are capped so that the upside potential is not so large as to encourage undue risk taking;

- many of our equity incentives vest or are earned over a multi-year period, which requires the executive to bear the economic risk of the award over the vesting or performance period;
- our incentive plans define a range of performance over which payouts may be earned, including at levels below target achievement, rather than an "all-or-nothing" approach;
- we generally use different performance measures in different incentive programs, which provides balance and reduces the potential for taking undue risks to meet a single goal;
- the stock components of our long-term incentive program, combined with our stock ownership guidelines, align the interests of our executives with long-term preservation and appreciation of stockholder value;
- we prohibit pledging of, and hedging against losses in, Cypress securities by our executives;
- incentive payments and awards are subject to clawback in the event of a material restatement of our financial results;
- our Compensation Committee retains a compensation consultant for independent advice and objective market data; and
- the Compensation Committee considers information from peer companies in evaluating compensation levels and incentive plan designs, thereby avoiding unusually high pay opportunities and unusual pay structures relative to the Company's peers.

The Compensation Committee, with assistance from its independent compensation consultant, has reviewed compensation related risks and does not believe Cypress's compensation programs encourage excessive or inappropriate risk taking or create risks that are reasonably likely to have a material adverse effect on Cypress. The Compensation Committee, with the assistance of its compensation consultant, intends to continue to take risk considerations into account when designing executive compensation programs.

Stock Ownership Requirements

The table below summarizes our stock ownership policy and status among our directors and Named Executive Officers as of March 1, 2019.

	Stock Ownership Requirement	Shares Actually Held
Chief Executive Officer	6*x* base compensation	11*x* base compensation
All Other Named Executive Officers	4*x* base compensation	6*x* – 12*x* base compensation
Non-Employee Directors	5*x* annual cash retainer[1]	3*x* – 47*x* annual cash retainer[2]

1. The annual cash retainer for non-employee directors is $50,000.
2. Two directors currently hold company stock with a value of less than 5*x* the annual cash retainer (as of March 1, 2019), both of whom were appointed to the Board within the past two years and are within the initial appointment grace period under our stock ownership policy. Among our other non-employee directors, the ownership range is 14*x* – 47*x* annual cash retainer.

Unvested RSUs do not count toward the stock ownership requirement; neither do unexercised stock options, even if vested and "in the money." Executive officers have three years from their designation as named executive officers to meet the stock ownership requirement; if the requirement is not met after three years, then the executive must hold all future shares that vest (net of taxes) until the stock ownership requirement is met. Non-employee directors are required to meet the requirement within five years of their initial election or appointment to the Board.

As a result of the above requirements, we expect that our directors and Named Executive Officers will continue to hold a substantial amount of their Cypress compensation in shares of Cypress common stock and maintain alignment with stockholder interests. All executive officers and directors currently comply with these requirements or expect to be in compliance within the required timeframes.

Policy Against Hedging and Pledging
The Company recognizes that hedging against losses in shares of our common stock may undermine the alignment between stockholders and executives that the Company's stock ownership policy and equity awards are intended to build. Accordingly, the Company has incorporated prohibitions on various hedging activities within its insider trading policy and corporate governance guidelines. All employees are prohibited from engaging in short sales of Company securities and trading in derivatives (such as put and call options or forward transactions) that relate to Company securities. Our directors and executive officers are further prohibited from pledging Company securities as collateral for a loan, purchasing Company securities on margin, holding Company securities in a margin account, and engaging in any other transactions that have the effect of pledging, or hedging against losses in, Company securities.

No Named Executive Officer currently holds Cypress securities that are pledged pursuant to a margin account, as security for a loan, or otherwise.

Grant Practices
The Compensation Committee generally holds four in-person meetings per year, with additional telephonic meetings as required. Each year, equity awards to the Senior Executives (i.e., our Named Executive Officers and other executives who report directly to the CEO) are approved (or, in the case of grants to the CEO, recommended to the Board) by the Compensation Committee, generally at an in-person meeting held in February. Such grants are generally approved by reference to specified dollar amounts, which are converted into share-based amounts using the per-share closing market price of our common stock on the grant date. The grant date is generally specified as the first trading day after the date of the Committee's meeting (which allows time for Board approval of the Committee's recommendation, in the case of grants to the CEO). This schedule is designed so that awards are not granted to Senior Executives during our Insider Trading Policy's quarterly blackout period (which commences 16 days before the end of each fiscal quarter and ends 24 hours after our quarterly earnings release).

The Compensation Committee has delegated to our chief legal and human resources officer the authority to approve equity awards to employees below the Senior Executive level, but only within Committee-approved guidelines (which establish dollar-based ranges for various job-types and seniority levels, as well as an overall annual grant limit). The chief legal and human resources officer's general practice is to approve awards to each month's new hires on the eighth day of the following month (or the next business day, if such eighth day is not a business day).

Clawback Policy
Cypress's clawback policy requires the return of performance-based compensation payments to Cypress (i) by any executive engaged in (a) fraud, theft, misappropriation, embezzlement or dishonesty, or (b) intentional misconduct related to Cypress's financial reporting, or (ii) in the event of a material negative revision of any financial or operating measure on which performance-based compensation was paid out to such executive.

MATERIAL COMPENSATION ACTIONS FOR 2019

2019 Peer Group Companies

In July 2018, with advice from its independent compensation consultant, the Compensation Committee revised our peer group for 2019 to better align the group with Cypress's revenue and market capitalization, and to account for mergers and acquisitions within our industry. Specifically, the Committee removed Microsemi Corporation (which had been acquired by Microchip Technology) and added Diodes Incorporated, Mellanox Technologies, Ltd. and Xilinx, Inc. The resulting peer group, which was used for purposes of the comparative review that informed the

Committee's compensation decisions made to date in 2019 (as well as its severance arrangement modification decisions made in late 2018), is as listed below:

2019 Peer Group Companies	
Advanced Micro Devices, Inc.	Microchip Technology Inc.
Cirrus Logic, Inc.	ON Semiconductor Corp.
Cree, Inc.	Qorvo, Inc.
Diodes Incorporated	Silicon Laboratories, Inc.
Integrated Device Technology, Inc.	Skyworks Solutions, Inc.
Marvell Technology Group Ltd.	Synaptics Incorporated
Maxim Integrated Products Inc.	Xilinx, Inc.
Mellanox Technologies, Ltd.	

As of mid-2018 when this peer group was selected, Cypress ranked at the 49th percentile among the peers in revenue (over the prior twelve months), at the 44th percentile in market capitalization, and at the 50th percentile in number of employees.

2019 Base Salaries

In the first quarter of 2019, the Compensation Committee approved the following annual base salaries for our Named Executive Officers (confirmed by the Board, in the case of our CEO), which will take effect in June 2019. These adjustments were based on a review of each Named Executive Officer's compensation compared to the compensation of his or her applicable counterpart at our peer group of companies and each executive's performance, as well as the other factors listed in "Determining Compensation Levels" above.

Name	Initial Base Salary Rate (Jan-May 2019)	Increase	Adjusted Base Salary Rate (Effective June 2019)
Hassane El-Khoury	$700,000	7.1%	$750,000
Thad Trent	$435,000	3.5%	$450,000
Sam Geha	$350,000	7.1%	$375,000
Sudhir Gopalswamy	$354,000	15.8%	$410,000
Pamela L. Tondreau	$385,000	2.6%	$395,000

2019 Short-Term Incentive (Cash Bonus) Plan

In January 2019, the Compensation Committee approved the Named Executive Officers' continued participation in our short-term incentive (cash bonus) plan, the Cypress Incentive Plan (or CIP), for another year (confirmed by the Board, in the case of our CEO). The fiscal 2019 CIP will be structured similarly to 2018 with five performance periods (the four fiscal quarters and full fiscal year). Bonus payments under the CIP will continue to be *calculated* on a quarterly basis (with an additional annual calculation), but effective for 2019 bonuses will be *paid* to our Named Executive Officers in a single annual payment (estimated to occur in February 2020). This change was made, in part, in response to investor feedback. The Company Funding Percentage for each performance period in 2019 will continue to be determined by a combination of revenue and non-GAAP pre-tax profit margin targets, subject to

the Compensation Committee's discretionary evaluation of the Company's operational performance for the period. The Committee also approved new target incentives for the Named Executive Officers as follows:

Name	2018 Target Incentive	Adjusted 2019 Target Incentive[1]
Hassane El-Khoury	140%	150%
Thad Trent	70%	85%
Sam Geha	70%	75%
Sudhir Gopalswamy	70%	75%
Pamela L. Tondreau	70%	75%

1. Target incentive adjustments will be effective commencing with the second quarter, and will also apply to the full year, performance periods.

As in prior years, the final element of the CIP in fiscal year 2019 will be the achievement of individual milestones, measured quarterly and on an annual basis. The individual milestones will be proposed by each Named Executive Officer and reviewed, modified as appropriate, and approved in advance by the CEO, and for the CEO reviewed by the Compensation Committee. The milestones will vary by individual and will be a mix of short-term and long-term goals that are focused on factors critical to our success, including financial, customer experience, new products, and operational initiatives.

2019 Long-Term Incentive (Equity Award) Program

In February 2019, the Compensation Committee approved grants of restricted stock units as part of our Long-Term Incentive Program for 2019, and set the performance goals (or "milestones") under which the Named Executive Officers will be eligible to earn shares (confirmed by the Board, in the case of our CEO). The table below shows the number of shares underlying the awards pertaining to each component (and the percentages they comprise of the total shares underlying each executive's award), at target in the case of performance-based components.

Long-Term Incentive Program Equity Awards Granted in 2019

Name	2019 Operating Margin (with TSR multiplier)		2019 Customer Experience (with TSR multiplier)		Service-Based (over three years)		Total Award	
	shares	%	shares	%	shares	%	shares	%
Hassane El-Khoury	162,360	39%	108,238	26%	146,268	35%	416,866	100%
Thad Trent	50,382	33%	33,587	22%	70,425	45%	154,394	100%
Sam Geha	40,305	33%	26,870	22%	56,340	45%	123,515	100%
Sudhir Gopalswamy	47,863	33%	31,908	22%	66,904	45%	146,675	100%
Pamela L. Tondreau	41,565	33%	27,709	22%	58,101	45%	127,375	100%

For 2019, the LTI program's performance-based structure differs slightly from the past. This year's award features two near-term milestones with longer-term upside opportunities based on the Company's relative TSR compared to the S&P Semiconductors Index. The two near-term performance milestones—non-GAAP operating margin and customer experience—both relate to the fiscal 2019 performance period. The payout scales approved by the Compensation Committee provide that shares allocated to each milestone can be earned up to 150% of target based on 2019 performance. However, unlike prior years, shares earned for 2019 performance will not vest immediately but instead will be divided into three approximately equal portions which will be scheduled to vest on the last trading day of February in 2020, 2021, and 2022. Each of those future vesting tranches will be subject to an additional upside multiplier—ranging from 1.0*x* to 1.5*x*—based on Cypress's relative TSR over the prior one, two, or three years, as applicable. Therefore, the maximum possible vesting will be 225% of target (i.e., the earned percentage of up to 150% × a multiplier of up to 1.5*x*).

As described above, the new structure of the 2019 program features performance vesting opportunities each year for the next three years (unlike the 2018 program which featured bimodal vesting opportunities concentrated in years one and three). In the Compensation Committee's view, the bimodal allocation created planning and communication complexities that outweighed its benefits. In order to smooth the transition back to annual performance vesting, each executive's LTI award for 2019 was increased (compared to its presumptive level under the prior structure). The shares were allocated among years one, two, and three and between PSUs and RSUs in a manner that helps smooth out each executive's year-to-year combined vesting opportunities under the two programs. For our CEO: the 2019 LTI award is allocated 65% to performance-based milestones and 35% to service-based milestones; service-based shares are scheduled to vest 50% on the first anniversary, and 25% each on the second and third anniversaries of the date of grant; and the target number of performance-based shares are eligible to vest 36% after year one and 32% after each of years two and three.

The 2019 LTI award agreement provides that upon a change of control of the Company, the TSR measurement period of the LTI awards would end, the transaction price would be used as the Company's ending price for the TSR calculation, and vesting levels would be calculated based on the resulting TSR multiplier. However, the earned shares would not vest until their originally scheduled vesting dates. If an executive's employment were to be terminated prior to vesting in circumstances that entitled him or her to acceleration under his or her severance agreement, such acceleration would occur only to the extent of the TSR-determined vesting level, rather than at the 100% target level.

Benefit Plans

For 2019, the Company's 401(k) match has been doubled. The plan provides for Company-paid matching contributions of up to $2,000 per year (matching 50% of each employee's contributions up to $4,000).

EXECUTIVE COMPENSATION TABLES

The tables on the following pages present compensation information for:

- Hassane El-Khoury, our president and chief executive officer;
- Thad Trent, our executive vice president, finance and administration, and chief financial officer;
- Sam Geha, our executive vice president, memory products division;
- Sudhir Gopalswamy, our executive vice president, microcontroller & connectivity division; and
- Pamela L. Tondreau, our executive vice president, and chief legal and human resources officer.

These five individuals are our "Named Executive Officers" (or NEOs). During fiscal 2018, we did not have any other executive officers (as such term is defined by the SEC in Rule 3b-7 under the Exchange Act).

Summary Compensation Table—2016-2018

The following table presents summary compensation information for fiscal years 2018, 2017, and 2016:

Name and Principal Position	Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards[3] ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation[4] ($)	All Other Compensation[5] ($)	Total Compensation ($)
Hassane El-Khoury[6] President, Chief Executive Officer and Director	2018	676,923	500	5,385,541		950,875	4,043	7,017,882
	2017	650,000	500	4,852,323		923,599	3,024	6,429,446
	2016	401,964	1,500	3,168,799		210,641	760	3,783,664
Thad Trent[7] Executive Vice President, Finance & Administration, Chief Financial Officer	2018	418,846		1,957,463		325,962	3,911	2,706,182
	2017	398,077		1,759,615		342,239	2,760	2,502,691
	2016	350,000		581,200		92,943	983	1,025,126
Sam Geha[8,9] Executive Vice President, Memory Products Division	2018	345,385		1,738,043		262,327	3,700	2,349,454
	2017	338,631		1,599,650		269,690	2,385	2,210,356
Sudhir Gopalswamy[8,10] Executive Vice President, Microcontroller & Connectivity Division	2018	347,538		2,031,338		186,843	3,125	2,568,844
	2017	337,961		1,599,650		235,862	1,460	2,174,933
Pamela L. Tondreau[8,11] Executive Vice President, Chief Legal & Human Resources Officer	2018	373,461		1,689,152		267,133	3,770	2,333,517
	2017	359,154		1,439,685		323,882	—	2,112,721

1. Includes amounts (if any) electively deferred by officers participating in the Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan. For more information, see the Non-Qualified Deferred Compensation Table below and "CD&A—Other Compensation/Benefits/Perquisites" above.

2. Mr. El-Khoury received a $500 bonus in November 2018 under the Company's patent bonus program (which is open to all full-time employees) for being among the inventors named in a patent issued to the Company in 2018.

3. Please note that "Stock Award" values do *not* reflect compensation actually realized by our executives. Instead, as required by SEC rules, the Stock Awards column presents the grant date fair value (as computed for accounting purposes in accordance with FASB ASC 718) for the equity awards we granted each executive during the years shown. Accordingly, for 2018 this column reports the value of all of the shares underlying 2018 RSU and PSU grants, even though *none* of those shares were scheduled to vest in 2018, as explained below.

   In 2018, our Named Executive Officers received one Stock Award each. The award was granted under our Long-Term Incentive (LTI) Program and included both service-based restricted stock units (or "RSUs") and performance-based stock units (or "PSUs"). The grant to our CEO was 70% PSUs and 30% RSUs. The grant to our other Named Executive Officers was 55% PSUs and 45% RSUs. The service-based vesting schedule for

the RSUs is one-third per year with the first tranche vesting on February 16, 2019 (the first anniversary of grant). The performance-based vesting schedule for the PSUs is 50% of target shares eligible to vest in early 2019 (based on 2018 performance) and 50% of target shares eligible to vest in early 2021 (based on a combination of 2020 performance and three-year 2018-2020 total stockholder return (TSR)). PSU vesting is also subject to the executive's continued service through the scheduled vesting date. Our 2018 RSU and PSU vesting schedules are summarized below:

2018 LTI Award Type	2018	Scheduled Vesting (at target for PSUs)		
		2019	2020	2021
RSU	grant	33%	33%	33%
PSU	grant	50%		50%

Accordingly, the 2018 Stock Award amounts in the Summary Compensation Table can be understood as potential value that could be earned over several years; they do not report pay that was actually realized by our Named Executive Officers in 2018. For more information on the 2018 awards' vesting schedules and performance conditions, please see "CD&A—2018 Long-Term Incentive Program." For the value of previously-granted stock awards that actually vested in 2018, see the "Option Exercises and Stock Vested" table below.

As mentioned above, values in the "Stock Awards" column present grant date fair value (as computed for accounting purposes in accordance with FASB ASC 718). As required by SEC and accounting rules, we calculated each PSU's grant date fair value based on the performance outcome we judged to be probable when the award was granted. The PSUs granted in 2018 can vest up to 200 percent of target, with the ultimate vesting level depending on our achievement of performance goals established by the Compensation Committee. For performance goals involving financial or operational measures, we generally considered target performance to be probable, so the grant date fair values included in the table above are based on our expectation that the PSUs subject to such measures would vest at target. For performance goals (such as relative TSR) that involve future market prices of common stock, we determined grant date fair value based on a Monte Carlo simulation valuation model. The following table presents the grant date fair values of the PSUs granted in 2018 under two sets of assumptions: (a) assuming that the performance goals would be achieved at the probable level (which is the PSU valuation included in the "Stock Awards" column above), and (b) assuming that the highest level of performance vesting would be achieved.

Name	Grant Date Fair Value of 2018 Performance-Based Stock Units (PSUs)	
	Based on Probable Outcome ($)	Based on Maximum Performance ($)
Hassane El-Khoury	3,905,711	7,811,422
Thad Trent	1,188,241	2,376,482
Sam Geha	1,055,042	2,110,085
Sudhir Gopalswamy	1,233,085	2,466,169
Pamela L. Tondreau	1,025,363	2,050,726

For purposes of presenting FASB ASC 718 grant date fair value in the Summary Compensation Table, as required by SEC rules we excluded any impact of estimated forfeitures related to service-based vesting conditions. For information on other assumptions used in our grant date fair value computations, refer to Note 10—"Employee Stock Plans and Stock-Based Compensation" in the Notes to Consolidated Financial Statements in our 2018 Form 10-K.

4. "Non-Equity Incentive Plan Compensation" reports bonus amounts earned under the Cypress Incentive Plan (or CIP) for performance during the specified year (even if paid out early in the following year).

5. "All Other Compensation" amounts for 2018 include:

   - for Mr. El-Khoury, group term life insurance premiums valued at $2,293, Company-paid matching contributions of $1,000 under our 401(k) plan (open to all U.S. employees), and Company-paid contributions of $750 to his health savings account (HSA) under our health benefit program open to all U.S. employees;
   - for Mr. Trent, Company-paid HSA contributions of $1,500, group term life insurance premiums valued at $1,411, and 401(k) matching contributions of $1,000;
   - for Mr. Geha, Company-paid HSA contributions of $1,500, group term life insurance premiums valued at $1,200, and 401(k) matching contributions of $1,000;
   - for Mr. Gopalswamy, group term life insurance premiums valued at $1,200, 401(k) matching contributions of $1,000, a voucher redeemable for $500 of merchandise automatically awarded in April 2018 under the Company's employee recognition program (open to all employees) upon Mr. Gopalswamy's completion of ten years of service at Cypress, and a "gross-up" payment of $425 to eliminate the adverse tax consequences of receiving such voucher and gross-up; and
   - for Ms. Tondreau, Company-paid HSA contributions of $1,500, group term life insurance premiums valued at $1,270, and 401(k) matching contributions of $1,000.

   Cypress is not the beneficiary of these life insurance policies. Our Named Executive officers participate in the same group term life insurance program as other Cypress employees, which pays out at three times the employee's annual base salary if the employee dies during the coverage period.

6. Mr. El-Khoury's annual salary rate was $270,650 until he was appointed as our President and CEO in August 2016, at which time his annual salary rate was increased to $650,000. Effective June 4, 2018, Mr. El-Khoury's annual salary rate was increased to $700,000.

7. Effective June 4, 2018, Mr. Trent's annual salary rate was increased from $400,000 to $435,000.

8. Each of Mr. Geha, Mr. Gopalswamy, and Ms. Tondreau was confirmed by the Board as an executive officer in 2017. As permitted by SEC rules, the table above does not present any executive's compensation information prior to the year of his or her appointment as an executive officer.

9. Mr. Geha was promoted to Executive Vice President, Memory Products Division in February 2018. Previously, he served as our Senior Vice President of the Memory Products Division. Effective June 4, 2018, Mr. Geha's annual salary rate was increased from $340,000 to $350,000.

10. Mr. Gopalswamy was promoted to Executive Vice President, Microcontroller & Connectivity Division in February 2018. Previously, he served as our Senior Vice President of the Microcontroller & Connectivity Division. Effective June 4, 2018, Mr. Gopalswamy's annual salary rate was increased from $340,000 to $354,000.

11. Ms. Tondreau was promoted to Executive Vice President, and Chief Legal and Human Resources Officer in February 2018. Previously, she served as our Senior Vice President, and Chief Legal and Human Resources Officer. Effective June 4, 2018, Ms. Tondreau's annual salary rate was increased from $360,000 to $385,000.

Grants of Plan-Based Awards Table—2018

The following table presents all plan-based awards granted to our Named Executive Officers during fiscal year 2018.

Name	Grant Date	Date of Compensation Committee Approval	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[3]			All Other Stock Awards: Number of Shares of Stock or Units (#)[5]	Grant Date Fair Value of Stock and Option Awards ($)[6]
			Threshold ($)[2]	Target ($)	Maximum ($)	Threshold (#)[4]	Target (#)	Maximum (#)		
Hassane El-Khoury	2/16/2018	2/15/2018[7]					225,386	450,772	96,594	5,385,541
		2/15/2018[8]		946,500	2,366,250					
Thad Trent	2/16/2018	2/15/2018[7]					61,368	122,736	50,210	1,957,463
		2/15/2018[8]		299,600	749,000					
Sam Geha	2/16/2018	2/15/2018[7]					54,489	108,978	44,582	1,738,043
		2/15/2018[8]		243,600	609,000					
Sudhir Gopalswamy	2/16/2018	2/15/2018[7]					63,684	127,368	52,105	2,031,338
		2/15/2018[8]		245,840	614,600					
Pamela L. Tondreau	2/16/2018	2/15/2018[7]					52,956	105,912	43,328	1,689,152
		2/15/2018[8]		266,000	665,000					

1. Amounts in the "Non-Equity Incentive Plan" columns represent cash bonus opportunities under our short-term incentive (cash bonus) plan, the Cypress Incentive Plan (or CIP). For our executives, the CIP features five performance periods per year, including each of the four fiscal quarters and the full fiscal year. CIP participants are assigned goals for each performance period, and any cash bonus earned for a period is paid out upon Compensation Committee approval shortly after the end of the period. Under the CIP, our Compensation Committee assigns an incentive target to each NEO expressed as a percentage of base salary. Mr. El-Khoury's incentive target was 125% for the first quarter of 2018 and was raised to 140% for the remaining quarters and full-year period. Our other NEOs each had an incentive target of 70% for all five performance periods of 2018. For each of the five performance periods, an executive's target bonus is calculated as one-fifth of his or her annual incentive target multiplied by his or her annualized salary rate at the end of the period. The sum of each executive's five CIP target bonuses for 2018 is shown in the "target" column above. Under the CIP, the actual bonus for each performance period is determined by multiplying the executive's target bonus for the period by (a) a Company funding percentage that may range from 0% to 200% and (b) an individual goal achievement percentage that may range from 0% to 100% (or up to 125% in the case of special "stretch" goals). The Company funding percentage for each performance period is determined by the Compensation Committee based on (x) the Company's performance relative to financial goals for such period established by the Committee early in the year and (y) the Committee's discretionary assessment of the Company's operational performance for the period. For 2018, the funding goal metrics were revenue and non-GAAP pre-tax profit margin. Each NEO's individual goal achievement percentage for each performance period was determined by the Compensation Committee based on the Committee's assessment of his or her performance for the period, particularly with respect to his or her Critical Success Factor goals (or "CSFs") for the period. CSFs for each performance period were assigned to each participant shortly after the start of the period by the Compensation Committee, in the case of Mr. El-Khoury's goals, or by the CEO subject to Committee oversight, in the case of the other NEOs' goals. CIP bonuses cannot exceed 250 percent of target. The "maximum" column presents each NEO's maximum possible aggregate CIP bonuses for 2018. The aggregate CIP bonuses actually paid to each NEO for 2018 are presented in the Summary Compensation Table under the heading "Non-Equity Incentive Plan Compensation."
2. There was no threshold bonus under the CIP for 2018. The funding percentage for each CIP performance period was subject to two performance measures, revenue and non-GAAP pre-tax profit margin, with goal levels for each measure arranged on a two dimensional matrix. The funding percentage would be zero if the Company did not achieve each measure's minimum performance level, subject to Compensation Committee discretion to override the result determined by performance. If the Company performed above both measures'

minimum levels but less than the next higher goal level, the funding percentage would be determined by linear interpolation between 0% and the funding percentage for such next higher level.

3. Amounts in the "Equity Incentive Plan" columns represent performance-based stock units (or "PSUs") granted under the Company's 2013 Stock Plan as part of our Long-Term Incentive (LTI) Program. Each PSU is subject to both performance-based and service-based vesting requirements. This means that, in addition to satisfying the performance-based requirements, the grantee must also remain continuously employed with the Company through the vesting date specified in the award agreement for the grantee's PSUs to vest. As described in the CD&A, the goals for the PSUs granted in 2018 relate to the Company's 2018 non-GAAP net income, the Company's 2020 non-GAAP pre-tax profit margin, and the Company's three-year total stockholder return (TSR) from the start of 2018 through the end of 2020 relative to the TSR of the companies in the S&P Semiconductors Index for the same period. The 2018 PSUs granted to Mr. El-Khoury include additional goals relating to the Company's 2018 new product revenue and the revenue growth that the Company achieves in 2020 over the 2016 base year relative to semiconductor market growth for the same period.

4. There was no vesting threshold for the PSUs granted in 2018. The vesting for each PSU is subject to various performance measures as listed in Note (3) above. The portion of each PSU allocated to each measure will not vest if the Company does not achieve that measure's minimum performance level. If the Company performs above that measure's minimum level but less than 100 percent of its target level, the portion of the PSU allocated to that measure would vest between zero percent and 100 percent.

5. Amounts in the "All Other Stock Awards" column represent service-based restricted stock units (or "RSUs") granted as part of our LTI Program. Each RSU granted in 2018 is scheduled to vest in three equal annual installments on the first three anniversaries of the date of grant, subject to the grantee's continued service with Cypress through each scheduled vesting date.

6. As required by SEC rules, this column presents the aggregate grant date fair value of the awards computed in accordance with FASB ASC 718. These amounts do not reflect whether the recipient has actually realized a financial benefit from the awards (such as by vesting in stock). For information on the assumptions used in our grant date fair value computations, refer to Note 10—"Employee Stock Plans and Stock-Based Compensation" in the Notes to Consolidated Financial Statements in our 2018 Form 10-K.

7. This row represents an equity award under the Company's LTI Program including both PSUs (as described in footnotes (3) and (4) above) and RSUs (as described in footnote (5) above). For more information, see "CD&A—2018 Long-Term Incentive Program."

8. This row represents a cash bonus opportunity under the Company's short-term incentive program, the Cypress Incentive Plan, as further described in footnotes (1) and (2) above. For more information, see "CD&A—2018 Short-Term Incentive Plan (Cash Bonus) Compensation."

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements

Hassane El-Khoury. On December 3, 2018, the Company entered into an amended and restated employment agreement with Mr. El-Khoury to serve as our president and chief executive officer. The letter has no specified term, and Mr. El-Khoury's employment with the Company is on an at-will basis. The letter provides that Mr. El-Khoury will receive an annual base salary of no less than $700,000. He will also be eligible to participate in the Company's cash bonus plan, the Cypress Incentive Plan, with a target incentive of 140% effective June 2018. Base salary will be subject to increase, but not decrease, at the sole discretion of the Company's Board and payment of any bonus will be in the sole discretion of the Board. Mr. El-Khoury is also eligible to participate in the benefit programs generally available to executive officers of the Company. The provisions of Mr. El-Khoury's amended and restated employment agreement relating to severance benefits are described below in the section "Potential Payments Upon Termination or Change of Control" as well as above in "CD&A—Severance and Change of Control Severance Arrangements."

Thad Trent. On September 20, 2005, the Company entered into an employment offer letter with Mr. Trent. The letter has no specified term. The letter provides that Mr. Trent will receive an annual base salary of $180,000 and will be eligible to participate in the Company's cash bonus plan with a target incentive of 30%. Mr. Trent will also be

eligible to participate in the Company's employee fringe benefit programs, stock purchase, new product bonus, and 401(k) plans. The letter provides for Mr. Trent to receive a sign-on bonus which was paid and an equity award which was granted and has vested in full.

Sam Geha, Ph.D. On October 27, 1995, the Company entered into an employment offer letter with Mr. Geha. The letter has no specified term. The letter provides that Mr. Geha will be eligible to participate in the Company's employee fringe benefit programs, stock purchase, profit sharing, and 401(k) plans. The letter also provides for Mr. Geha to receive sign-on bonuses which were paid and an equity award which was granted and has vested in full.

Sudhir Gopalswamy. On February 26, 2008, the Company entered into an employment offer letter with Mr. Gopalswamy. The letter has no specified term, and Mr. Gopalswamy's employment with the Company is on an at-will basis. The letter provides that Mr. Gopalswamy will receive an annual base salary of $200,000 and will be eligible to participate in the Company's cash bonus plan with a target incentive of 30%. Mr. Gopalswamy will also be eligible to participate in the Company's employee fringe benefit programs, stock purchase, new product bonus, and 401(k) plans. The letter provides for Mr. Gopalswamy to receive an equity award which was granted and has vested in full.

Pamela L. Tondreau. On January 15, 2015, the Company entered into an employment offer letter with Ms. Tondreau to serve as our general counsel. The letter has no specified term, and Ms. Tondreau's employment with the Company is on an at-will basis. The letter provides that Ms. Tondreau will receive an annual base salary of $260,000 and will be eligible to participate in the Company's cash bonus plan with a target incentive of 50%. Ms. Tondreau will also be eligible to participate in the Company's employee fringe benefit programs, stock purchase, and 401(k) plans. The letter provides for Ms. Tondreau to receive the following equity awards, both of which have been granted: a 25,000 share performance-based stock unit award vesting in early 2016 based on 2015 performance goals, and a 90,000 share service-based restricted stock unit award vesting in five equal annual installments from the date of hire.

Equity Awards and Non-Equity Incentive Plan Awards

Each of the "non-equity incentive plan awards" reported in the Grants of Plan-Based Awards Table above was granted under, and is subject to the terms of, the Cypress Incentive Plan. Please see the discussion in the CD&A under the heading "2018 Executive Compensation—2018 Short-Term Incentive (Cash Bonus) Compensation" for a description of the material terms of awards granted under the Cypress Incentive Plan for 2018.

Each of the "equity incentive plan awards" and "other stock awards" reported in the Grants of Plan-Based Awards Table above was granted as part of our Long-Term Incentive Program and is subject to the terms of our 2013 Stock Plan. Please see the discussion in the CD&A under the heading "Long-Term Incentive (Equity Award) Compensation—2018 Long-Term Incentive Program" for a description of the material terms of the equity awards granted to our named executive officers in 2018.

Outstanding Equity Awards at Fiscal Year End Table—2018

The following table presents all equity awards held by our Named Executive Officers at the end of fiscal year 2018:

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised/ Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested[1,2] (#)	Market Value of Shares or Units of Stock that Have Not Vested[3] ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested[1,4] (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested[3] ($)
Hassane El-Khoury	4,300			6.17	3/19/2019				
						96,594[5]	1,221,914	225,386[6]	2,851,133
						158,577[7]	2,005,999	126,840[8]	1,604,526
						55,212[9]	698,432		
Thad Trent	20,002			11.55	5/30/2021				
	16,001			11.27	12/18/2020				
	17,000			6.17	3/19/2019				
						50,210[5]	635,157	61,368[10]	776,305
						57,507[7]	727,464	45,996[11]	581,849
Sam Geha						44,582[5]	563,962	54,489[12]	689,286
						52,276[7]	661,291	41,816[13]	528,972
						2,168[14]	27,425		
						2,000[15]	25,300		
Sudhir Gopalswamy	6,598			6.17	3/19/2019				
						52,105[5]	659,128	63,684[16]	805,603
						52,276[7]	661,291	41,816[13]	528,972
						9,600[17]	121,440		
						2,200[15]	27,830		
						4,000[18]	50,600		
Pamela L. Tondreau						43,328[5]	548,099	52,956[19]	669,893
						47,052[7]	595,208	37,632[20]	476,045
						36,000[21]	455,400		

1. Awards are generally subject to forfeiture in connection with any termination of the award holder's employment with Cypress, subject however to any vesting acceleration to which the award holder may be entitled to in the circumstances of the termination as described below in the section "Potential Payments Upon Termination or Change of Control."

2. Entries in this column represent unvested service-based restricted stock units, which we call "RSUs" (i.e., stock awards that are scheduled to vest after year-end 2018 based on the executive's continued service with Cypress through the scheduled vesting dates).

3. Market value is based on the $12.65 closing price of Cypress common stock on December 28, 2018 (the final trading day of fiscal year 2018) multiplied by the number of unvested shares underlying each award, at target in the case of performance-based awards.

4. Entries in this column represent unvested performance-based stock units, which we call "PSUs" (i.e., stock awards that are scheduled to vest after year-end 2018 based primarily on the achievement of performance goals, in addition to the executive's continued service with Cypress through the scheduled vesting dates), with the number of outstanding units presented at target.

5. One-third of these RSUs vested on February 16, 2019 and the remainder will vest in two equal installments on February 16, 2020 and February 16, 2021.

6. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 56,347 units vested at 200% of target based on our 2018 non-GAAP net income and a target number of 56,347 units vested at 98% of target based on our 2018 new product revenue and (b) an aggregate target number of 112,692 units remains eligible to vest on February 26, 2021 based on our relative attainment of performance goals relating to our 2020 non-GAAP pre-tax profit margin, our three-year TSR 2018-2020 relative to that of the companies in the S&P Semiconductors Index, and the revenue growth that we achieve in 2020 over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period.
7. Two-thirds of these RSUs vested on February 1, 2019 and the remainder will vest on February 3, 2020.
8. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 31,710 units vested at 99% of target based on our non-GAAP gross margin for the fourth quarter of 2018, (b) when final market growth numbers are available (around May 2019) a target number of 31,710 units will vest (at approximately 91% of target) based on our 2018 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period, and (c) an aggregate target number of 63,420 units remains eligible to vest on February 28, 2020 based on our 2019 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period and our non-GAAP pre-tax profit growth in 2019 over the 2017 base year.
9. One-third of these RSUs vested on February 10, 2019 and the remainder will vest in two equal installments on May 10, 2019 and August 10, 2019.
10. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 30,684 units vested at 200% of target based on our 2018 non-GAAP net income and (b) a target number of 30,684 units remains eligible to vest on February 26, 2021 based on our relative attainment of performance goals relating to our 2020 non-GAAP pre-tax profit margin and our three-year TSR 2018-2020 relative to that of the companies in the S&P Semiconductors Index.
11. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 11,499 units vested at 99% of target based on our non-GAAP gross margin for the fourth quarter of 2018, (b) when final market growth numbers are available (around May 2019) a target number of 11,499 units will vest (at approximately 91% of target) based on our 2018 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period, and (c) an aggregate target number of 22,998 units remains eligible to vest on February 28, 2020 based on our 2019 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period and our non-GAAP pre-tax profit growth in 2019 over the 2017 base year.
12. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 27,245 units vested at 200% of target based on our 2018 non-GAAP net income and (b) a target number of 27,244 units remains eligible to vest on February 26, 2021 based on our relative attainment of performance goals relating to our 2020 non-GAAP pre-tax profit margin and our three-year TSR 2018-2020 relative to that of the companies in the S&P Semiconductors Index.
13. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 10,454 units vested at 99% of target based on our non-GAAP gross margin for the fourth quarter of 2018, (b) when final market growth numbers are available (around May 2019) a target number of 10,454 units will vest (at approximately 91% of target) based on our 2018 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period, and (c) an aggregate target number of 20,908 units remains eligible to vest on February 28, 2020 based on our 2019 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period and our non-GAAP pre-tax profit growth in 2019 over the 2017 base year.
14. These RSUs will vest in two equal installments on June 22, 2019 and June 22, 2020.
15. These RSUs will vest in full on November 10, 2019.
16. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 31,842 units vested at 200% of target based on our 2018 non-GAAP net income and (b) a target number of 31,842 units remains eligible to vest on February 26, 2021 based on our relative attainment of

performance goals relating to our 2020 non-GAAP pre-tax profit margin and our three-year TSR 2018-2020 relative to that of the companies in the S&P Semiconductors Index.

17. These RSUs will vest in three equal installments on May 30, 2019, May 30, 2020 and May 30, 2021.

18. These RSUs will vest in full on July 21, 2019.

19. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 26,478 units vested at 200% of target based on our 2018 non-GAAP net income and (b) a target number of 26,478 units remains eligible to vest on February 26, 2021 based on our relative attainment of performance goals relating to our 2020 non-GAAP pre-tax profit margin and our three-year TSR 2018-2020 relative to that of the companies in the S&P Semiconductors Index.

20. This award is a PSU presented at its target vesting level. Under this award: (a) on February 28, 2019 a target number of 9,408 units vested at 99% of target based on our non-GAAP gross margin for the fourth quarter of 2018, (b) when final market growth numbers are available (around May 2019) a target number of 9,408 units will vest (at approximately 91% of target) based on our 2018 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period, and (c) an aggregate target number of 18,816 units remains eligible to vest on February 28, 2020 based on our 2019 revenue growth over the 2016 base year relative to semiconductor market growth (excluding DRAM) for the same period and our non-GAAP pre-tax profit growth in 2019 over the 2017 base year.

21. One-half of these RSUs vested on January 22, 2019 and the remainder will vest on January 22, 2020.

Option Exercises and Stock Vested Table—2018

The following table shows how many stock options our Named Executive Officers exercised, and how many shares of stock vested for them, during 2018. This table also presents the aggregate value our Named Executive Officers realized from such option exercises and vesting events.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)[1]	Value Realized on Exercise ($)[2]	Number of Shares Acquired on Vesting (#)[1]	Value Realized on Vesting ($)[3]
Hassane El-Khoury	3,811	43,390	286,301	4,830,238
Thad Trent			136,199	2,359,276
Sam Geha	2,400	13,365	116,128	2,004,566
Sudhir Gopalswamy			123,374	2,125,085
Pamela L. Tondreau			125,137	2,175,630

1. Number of shares acquired is the total number of shares exercised or vested, as applicable (before any deduction for payment of taxes or exercise price).

2. In the case of options, "value realized" equals the difference between the exercise price and the market price of our common stock at exercise, multiplied by the number of exercised options.

3. In the case of stock awards, "value realized" equals the closing price of our common stock on the vesting date (or the prior trading day, in the case of weekend or holiday vesting events), as reported by Nasdaq, multiplied by the total number of vested shares (including shares withheld by us to cover tax withholding).

Non-Qualified Deferred Compensation Table—2018[1]

The following table presents the contributions and withdrawals (if any) that our Named Executive Officers made to or from our non-qualified deferred compensation plans in fiscal 2018, along with the aggregate earnings (or losses) in their plan accounts for the year, and their plan balances at the end of fiscal 2018.

Name	Executive Contribution in the Last Fiscal Year[2] ($)	Registrant Contribution in the Last Fiscal Year[3] ($)	Aggregate Earnings (Losses) in the Last Fiscal Year[4] ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End[5] ($)
Hassane El-Khoury					
Thad Trent			(104,805)		656,290
Sam Geha			(53,095)		514,900
Sudhir Gopalswamy					
Pamela L. Tondreau					

1. Cypress's two deferred compensation plans provide certain eligible employees, including the Named Executive Officers, with the opportunity to defer the receipt of compensation in order to accumulate funds for retirement on a tax-deferred basis. Each participant in Cypress's deferred compensation plans may elect to defer a percentage of his or her compensation (annual base salary, cash bonuses and any cash sales commissions) and invest such deferral in the plans' available investment options. Cypress does not make contributions to the employees' deferred compensation plans and does not guarantee returns on the investments. Participant deferrals and net investment gains remain as Cypress liabilities and the underlying assets are subject to the claims of Cypress's general creditors. Withdrawals and other distributions are subject to the requirements of Section 409A of the Tax Code. See "CD&A—Other Compensation/Benefits/Perquisites" above for additional information about deferral limits and terms of each plan.

2. During fiscal 2018, our Named Executive Officers did not make any contributions to our deferred compensation plans.

3. The deferred compensation plans do not provide for, and we do not make, any registrant contributions to the plans.

4. None of the aggregate earnings (losses) in the non-qualified deferred compensation plans are reported in the Summary Compensation Table.

5. The aggregate balance amounts under the deferred compensation plans include deferrals made in prior fiscal years. For individuals who were named executive officers for the fiscal years in which the deferrals were made, the amount of the deferred compensation was included in such individuals' compensation as reported in the summary compensation tables that were included in the proxy statements for such fiscal years.

Potential Payments Upon Termination or Change of Control

The following sections describe the benefits that may become payable to our Named Executive Officers in connection with a termination of their employment with the Company and/or a change of control of the Company under arrangements in effect at the end of fiscal 2018.

Severance Provisions of our Amended and Restated CEO Employment Agreement

Effective December 3, 2018, the Company entered into an Amended and Restated Employment Agreement with Mr. El-Khoury (the "Current Agreement") which amends his Employment Agreement dated as of November 30, 2016 (the "Original Agreement") and includes severance provisions as summarized below.

Pursuant to the Current Agreement, if Mr. El-Khoury's employment is terminated involuntarily by the Company other than for "cause," death, or disability, or by Mr. El-Khoury pursuant to a "voluntary termination for good

reason" (as such terms are defined in the Current Agreement), then Mr. El-Khoury will be entitled to receive the following compensation and benefits:

- a lump-sum severance payment (less applicable withholdings) equal to twenty-four (24) months of Mr. El-Khoury's base salary plus twenty-four (24) months of his annual target bonus;
- payments by the Company on Mr. El-Khoury's behalf of (or, at the Company's option, reimbursement of Mr. El-Khoury for) the premium costs incurred by Mr. El-Khoury and his dependents for continued health, dental, vision, and employee assistance program coverage under the applicable plans maintained by the Company for a coverage period of twenty-four (24) months following the effective date of the employment termination;
- accelerated vesting and extended exercisability of Mr. El-Khoury's then-outstanding equity-based awards as follows:
  - awards granted *prior* to the Current Agreement's Effective Date of December 3, 2018 shall become vested to the extent provided in the Original Agreement, which provides that "[a]ll vesting for ... equity and equity equivalent awards granted under any equity plan of the Company or affiliate of the Company then held by Executive shall be accelerated in full";
  - awards granted *after* the Effective Date shall accelerate vesting as to 100% of their unvested shares; in the case of performance-based awards such acceleration shall occur assuming attainment of the underlying performance targets at the 100% target level (or at the greater of actual performance levels or 100% of target levels if the termination occurs following the completion of the relevant performance period but before the relevant vesting date), unless the terms of such performance-vesting awards provide for different severance acceleration terms (in which case such different terms shall control); and
  - all of Mr. El-Khoury's vested options (including any options accelerated as above) shall be exercisable for up to twelve (12) months following the employment termination date (or, if earlier, until the option's original expiration date or the cancellation of the option pursuant to the terms of the plan under which it was granted).

The above benefits are subject to Mr. El-Khoury signing and not revoking a general release of claims in a form satisfactory to the Company such that the release becomes irrevocable no later than 60 days following the termination of employment.

The Current Agreement provides that any severance payment or other benefit payable to Mr. El-Khoury that constitutes a "parachute payment" within the meaning of Section 280G of the Tax Code, shall be either: (i) delivered in full, or (ii) delivered as to such lesser extent that would result in no portion of such payment being subject to excise tax under Section 4999 of the Code. The estimates included below in the section "Estimated Severance and Change-of-Control Benefits" are presented assuming that no such reduction in benefits would be required. Mr. El-Khoury's employment agreement does not provide for any tax gross-up or other reimbursement payment in respect of "golden parachute" excise tax payments.

Amended and Restated Change of Control Severance Agreements with our Executive Vice Presidents

Effective December 3, 2018, the Company entered into Amended and Restated Change of Control Severance Agreements with its executive vice presidents (each a "Covered Officer"), including Mr. Trent, Mr. Geha, Mr. Gopalswamy, and Ms. Tondreau.

Pursuant to these agreements, if the Company or any successor terminates the employment of a Covered Officer other than for "cause," death or disability, or if a Covered Officer voluntarily terminates his or her employment for "good reason" (as such terms are defined in the agreement), in either case during the period (the "Change of Control Period") beginning three (3) months prior to, and ending twenty-four (24) months after, the occurrence of a "change of control" (as defined in the agreement), then the Covered Officer will be entitled to receive the following compensation and benefits:

- a lump-sum severance payment (less applicable withholdings) equal to eighteen (18) months of the Covered Officer's annual base salary plus eighteen (18) months of the Covered Officer's annual target bonus;

- an additional lump-sum payment (less applicable withholdings) equal to the product of (x) eighteen (18) multiplied by (y) the monthly premium that would be required for the first month of the Covered Officer's COBRA premium, calculated on the assumption that the premium includes coverage for the Covered Officer and the Covered Officer's spouse and/or dependents; and
- accelerated vesting of 100% of the unvested portion of the Covered Officer's then-outstanding equity-based compensation; in the case of performance-based awards such acceleration shall occur assuming attainment of the underlying performance targets at the 100% target level (or at the greater of actual performance levels or 100% of target levels if the termination occurs following the completion of the relevant performance period but before the relevant vesting date), unless the terms of such performance-vesting awards provide for different severance acceleration terms (in which case such different terms shall control).

Outside of the Change of Control Period, upon an involuntary termination other than for cause, death, or disability, the Covered Officer shall be entitled to receive the following severance benefits and payments:

- a lump-sum severance payment (less applicable withholdings) equal to nine (9) months of the Covered Officer's annual base salary, and
- an additional lump-sum payment (less applicable withholdings) equal to the product of (x) nine (9) multiplied by (y) the monthly premium that would be required for the first month of the Covered Officer's COBRA premium, calculated on the same assumptions as above.

The agreement also contains non-disparagement and non-solicitation covenants, which apply if the Covered Officer receives severance benefits and run for nine (9) nine months following a date of termination outside the Change of Control Period or eighteen (18) months following a date of termination within the Change of Control Period.

The above benefits are also subject to the Covered Officer signing and not revoking a standard release of claims in a form reasonably acceptable to the Company within the time period specified in the release and in no event later than 60 days following the Covered Officer's termination of employment (the "Release Deadline Date").

Severance payments under the agreements are to be paid the first business day after the Release Deadline Date (but no later than March 15 of the next calendar year after the employment termination), subject to a delay of up to six months as necessary in order to comply with Section 409A of the Tax Code.

The agreements provide that any severance payment or other benefit payable to a Covered Officer that constitutes a "parachute payment" within the meaning of Section 280G of the Tax Code, shall be either: (i) delivered in full, or (ii) delivered as to such lesser extent that would result in no portion of such payment being subject to excise tax under Section 4999 of the Code. The estimates included below in the section "Estimated Severance and Change-of-Control Benefits" are presented assuming that no such reduction in benefits would be required. The agreements do not provide for any tax gross-up or other reimbursement payment in respect of "golden parachute" excise tax payments.

The initial term of the agreements is two years from December 3, 2018. At the expiration of the initial term and on each one year anniversary thereafter each agreement will automatically renew for an additional one year term unless either party provides written notice of non-renewal to the other party at least four months prior to the renewal date. If a change of control occurs while the agreement is in effect, the agreement's term will extend automatically through the date that is 24 months after the change of control.

Estimated Severance and Change-of-Control Severance Benefits

No Single-Trigger Benefits upon a Change of Control. None of the Company's Named Executive Officers are entitled to benefits (commonly called "single-trigger" benefits) that would become payable upon a change of control alone (i.e., without any employment termination).

Severance Benefits (Not in Connection with a Change of Control). The following table presents the Company's estimate of the benefits to which each of our Named Executive Officers would have been entitled if his or her employment had been terminated on December 30, 2018 (the final day of fiscal 2018) by the Company without cause (or, in the case of Mr. El-Khoury, by the executive for good reason), and *not* in connection with a change of control of the Company.

Name	Salary Payments ($)	Bonus Payments ($)	COBRA Benefits ($)	Equity Acceleration[1] ($)	Total ($)
Hassane El-Khoury	1,400,000	1,960,000	15,292	12,837,663[2]	16,212,955
Thad Trent	326,250	—	16,313	—	342,563
Sam Geha	262,500	—	16,570	—	279,070
Sudhir Gopalswamy	265,500	—	24,919	—	290,419
Pamela L. Tondreau	288,750	—	15,576	—	304,326

1. The value of equity award acceleration is based on the $12.65 closing market price of the Company's common stock on December 28, 2018, which was the last trading day of fiscal 2018, as reported on Nasdaq.
2. With respect to equity awards granted prior to December 3, 2018, the terms of Mr. El-Khoury's applicable agreement provide that "all vesting ... shall be accelerated in full" in the event of a termination without cause or a resignation for good reason. For purposes of the table above, we have interpreted such phrase to provide for acceleration of outstanding performance-based stock units at the maximum level.

Double-Trigger Change-of-Control Severance Benefits. The following table presents the Company's estimate of the severance benefits to which each of our Named Executive Officers would have been entitled if his or her employment had been terminated on December 30, 2018 (the final day of fiscal 2018) by the Company without cause or by the executive for good reason, and assuming for purposes of this illustration that such date was within 3 months before or 24 months after a hypothetical change of control of the Company.

Name	Salary Payments ($)	Bonus Payments ($)	COBRA Benefits ($)	Equity Acceleration[1] ($)	Total ($)
Hassane El-Khoury[2]	1,400,000	1,960,000	15,292	12,837,663[3]	16,212,955
Thad Trent	652,500	456,750	32,627	2,720,775	3,862,652
Sam Geha	525,000	367,500	33,139	2,496,237	3,421,876
Sudhir Gopalswamy	531,000	371,700	49,838	2,854,865	3,807,403
Pamela L. Tondreau	577,500	404,250	31,151	2,744,645	3,757,546

1. The value of equity award acceleration is based on the $12.65 closing market price of the Company's common stock on December 28, 2018, which was the last trading day of fiscal 2018, as reported on Nasdaq.
2. Mr. El-Khoury's severance benefits become payable upon any termination of employment without cause or resignation for good reason (regardless of whether in connection with a change of control of the Company).
3. With respect to equity awards granted prior to December 3, 2018, the terms of Mr. El-Khoury's applicable agreement provide that "all vesting ... shall be accelerated in full" in the event of a termination without cause or a resignation for good reason. For purposes of the table above, we have interpreted such phrase to provide for acceleration of outstanding performance-based stock units at the maximum level.

CEO Pay Ratio

Pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, companies are generally required to disclose the ratio of their median employee's total annual compensation to the total annual compensation of the chief executive officer (CEO). The Company's CEO is Hassane El-Khoury.

For purposes of making this required disclosure in 2018, we undertook to identify Cypress's median employee as of December 31, 2017. At that time, Cypress employed 6,589 persons of which 6,050 were regular full-time or part-time employees of Cypress or its wholly-owned subsidiaries, 404 were employees of less-than-wholly-owned subsidiaries, and 135 were temporary or seasonal workers. At that time, approximately 30.1% of our employees were in North America, 5.8% were in Europe, and 64.1% were in Asia. From this population, we identified the median employee based on each employee's total cash compensation in 2017. We did not make any assumptions or adjustments (including cost-of-living adjustments) or use any estimates for purposes of determining total cash compensation (except that local currencies were converted to U.S. Dollars using the exchange rates that we use for internal accounting purposes).

As of December 31, 2018, Cypress employs 6,422 persons of which 5,798 are regular full-time or part-time employees of Cypress or its wholly-owned subsidiaries, 485 are employees of less-than-wholly-owned subsidiaries, and 139 are temporary or seasonal workers. Approximately 28.5% of our employees are in North America, 5.9% are in Europe, and 65.6% are in Asia.

SEC rules permit us to use the median employee that was identified in connection with last year's disclosure for purposes of this year's disclosure as well, provided there have been no changes to our employee population or employee compensation arrangements that we reasonably believe would significantly affect our pay ratio disclosure. During 2018 we did not make any material broad-based changes to our employee compensation arrangements (salary structures, bonus arrangements, or equity grant patterns). As of the end of 2018, we conducted an analysis to consider the likely impact that restructuring activities, attrition, and hiring patterns had on our employee population over the course of 2018. Based on that analysis, we believe there were no changes in 2018 that would significantly impact the pay ratio disclosure. However, we concluded it would no longer be appropriate to use the employee identified in 2017 as the median employee in 2018 because of a change in the original median employee's circumstances that makes such employee no longer a representative employee. Accordingly, as permitted by SEC rules, we identified another median employee for 2018 whose 2017 compensation was substantially similar to the original median employee based on the compensation analysis used to select the original median employee.

After identifying the median employee for 2018 as described above, we calculated the annual total compensation for such employee using the same methodology we use to determine the total compensation of our Named Executive Officers as set forth in the Summary Compensation Table included in this Proxy Statement. Compensation was measured over our fiscal year 2018, beginning on January 1, 2018 and ending on December 30, 2018. For simplicity, in determining our median employee, the value of the Company's 401(k) plan, global pension plans (where offered) and medical benefits provided was excluded because all employees, including the CEO, are generally offered comparable benefits.

- Mr. El-Khoury's total annual compensation for fiscal 2018 was $7,017,882, as reported in the Summary Compensation Table included in this Proxy Statement.
- Our median employee's total annual compensation for fiscal 2018 was $44,372.
- For fiscal 2018, Mr. El-Khoury's total annual compensation was approximately 158 times that of our median employee.

This ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology described above. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. Therefore, the pay ratio reported by other companies might not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may use different methodologies, exclusions, estimates, and assumptions in calculating their own pay ratios.

OTHER MATTERS

Compensation Committee Interlocks and Insider Participation

During fiscal year 2018, the following directors were members of our Compensation Committee: Camillo Martino, Jeffrey J. Owens, Jeannine P. Sargent, and Michael S. Wishart. None of the Compensation Committee members is or has at any time been an officer or employee of Cypress.

None of Cypress's executive officers serves, or in the past fiscal year served, as a member of the board of directors or compensation committee of any entity that has one or more of its named executive officers serving on Cypress's Board or Compensation Committee.

Policies and Procedures with Respect to Related-Person Transactions

Our written Code of Business Conduct and Ethics prohibits our executive officers, directors and employees, or any of such persons' immediate family members or affiliates, from entering into any transaction or relationship that might present a conflict of interest to the Company or such individual. Any potential conflict of interest must be reported to the Company's chief financial officer or the Legal Department for review and, if necessary, escalated to the Audit Committee for further review. Our Audit Committee considers the relevant facts and circumstances available and deemed relevant to the Audit Committee, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence.

Since the start of fiscal 2018 we have not entered into any, and currently there are no proposed, related person transactions. For purposes of this section, "related person" and "transaction" are used as defined in Item 404(a) of SEC Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% stockholders are also required by the SEC rules to furnish us with copies of all of the forms they filed to comply with Section 16(a) requirements.

We believe that, during fiscal year 2018, our directors, executive officers, and 10% stockholders complied with all Section 16(a) filing requirements.

In making these statements, we have relied upon examination of the copies of Forms 3, 4, and 5, and amendments to these forms provided to us and certain written representations of our directors, executive officers, and 10% stockholders.

Other Matters

We know of no other matters to be submitted to a vote at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the Board may recommend.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares you hold. You are, therefore, urged to please execute and return your proxy card in the envelope provided or to vote by telephone or online at your earliest convenience.

FOR THE BOARD OF DIRECTORS

P Tondreau

Pamela L. Tondreau
Corporate Secretary

Dated: March 15, 2019

APPENDIX: NON-GAAP FINANCIAL MEASURES

This Proxy Statement references the following non-GAAP financial measures (as such term is defined by the Securities and Exchange Commission):

- Non-GAAP revenues;
- Non-GAAP gross profit;
- Non-GAAP gross margin;
- Non-GAAP pre-tax profit (which is called "Profit Before Tax" in our performance-equity awards);
- Non-GAAP operating income (loss);
- Non-GAAP operating margin;
- Non-GAAP net income (loss) (which is called "Profit After Tax" in our performance-equity awards);
- Non-GAAP diluted earnings (loss) per share (also referred to as "non-GAAP EPS"); and
- Free cash flow.

Cypress uses such non-GAAP financial measures to supplement its financial results presented in accordance with GAAP. Cypress's non-GAAP financial measures are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described in more detail below. Cypress's non-GAAP measures may be calculated differently than the non-GAAP financial measures presented by other companies.

Management believes that the non-GAAP financial measures we present reflect an additional and useful way of viewing aspects of the Company's operations that, when viewed in conjunction with Cypress's GAAP results, provides a more comprehensive understanding of the various factors and trends affecting the Company's business and operations. The Company generally presents non-GAAP financial measures because management uses these measures to analyze and assess the Company's financial results and to manage the business.

There are limitations to using non-GAAP financial measures, including the limitations discussed below. Management generally compensates for limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure. Our presentation of non-GAAP financial measures is not meant to be considered in isolation or as a substitute for information prepared and presented in accordance with GAAP. Our non-GAAP financial measures supplement and should be considered in conjunction with GAAP financial measures.

Non-GAAP Exclusions and Limitations

Our non-GAAP financial measures (other than free cash flow) exclude one or more of the following items:

Acquisition-related charges: Acquisition-related charges are not factored into management's evaluation of Cypress's long-term performance after the completion of acquisitions. However, a limitation of non-GAAP measures that exclude acquisition-related charges is that these charges may represent payments that reduce the cash available to the Company for other purposes. Acquisition-related expenses primarily include:

- Amortization of purchased intangibles, including purchased technology, patents, customer relationships, trademarks, backlog and non-compete agreements;
- Amortization of step-up in value of inventory recorded as part of purchase price accounting; and
- One-time charges associated with the completion of an acquisition including items such as contract termination costs, severance and other acquisition-related restructuring costs; costs incurred in connection with integration activities; and legal and accounting costs.

Stock-based compensation expense: Stock-based compensation expense relates primarily to employee stock options, restricted stock units, performance stock units and the employee stock purchase plan. Stock-based compensation expense is a non-cash expense that is affected by changes in market factors including the price of Cypress's common shares, which are not within the control of management. In addition, the valuation of stock-based compensation is

subjective, and the expense recognized by Cypress may be significantly different than the expense recognized by other companies for similar equity awards, which makes it difficult to assess Cypress's results compared to its competitors. Accordingly, management excludes this item from its internal operating forecasts and models. However, a limitation of non-GAAP measures that exclude stock-based compensation expense is that they do not reflect the full costs of compensating employees.

Other adjustments: Other items are excluded in the preparation of non-GAAP financial measures because management does not consider them to be related to the core operating activities and ongoing operating performance of Cypress. Excluding these items, which can vary significantly from quarter to quarter, allows management to better compare Cypress's period-over-period performance. However, limitations of non-GAAP measures that exclude these items include that these adjustments are often subjective and such non-GAAP measures may not be comparable to similarly titled non-GAAP financial measures used by other companies. Other adjustments primarily include:

- Changes in value of deferred compensation plan assets and liabilities,
- Investment-related gains or losses, including equity method investments,
- Restructuring and related costs,
- Loss on extinguishment of debt,
- Amortization of debt issuance costs, discounts and imputed interest related to the equity component of convertible debt,
- Asset impairments,
- Tax effects of non-GAAP adjustments,
- Income tax adjustments related to the use of net operating losses, non-cash impacts of not asserting indefinite reinvestment on earnings of our foreign subsidiaries, deferred tax expenses not affecting taxes payable (i.e., release of valuation allowance), and non-cash expenses (benefits) related to uncertain tax positions,
- Certain other expenses and benefits, and
- Diluted weighted average shares non-GAAP adjustment—for purposes of calculating non-GAAP earnings per share, the GAAP diluted weighted average shares outstanding is adjusted to include the impact of non-GAAP adjustments on the number of diluted shares underlying stock-based compensation awards and the impact of the capped call transactions related to the convertible notes.

In addition, "non-GAAP revenues" (which Cypress presented for six quarters following our March 2015 merger with Spansion) adjusted GAAP revenues to include revenue from an intellectual property license between Spansion and Samsung that was not included in GAAP revenues as a result of the effect of our purchase accounting for the Spansion merger.

Free Cash Flow

Free cash flow is calculated as net cash provided by (used in) operating activities, less acquisition of property, plant and equipment, net (i.e., acquisition of property, plant and equipment less proceeds received from disposition of property, plant and equipment). We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by business operations, after deducting our net payments for acquisitions and dispositions of property and equipment, which cash can then be used for strategic opportunities or other business purposes including, among others, investing in the Company's business, repurchasing stock, making strategic acquisitions, repayment of debt, and strengthening the balance sheet. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Management compensates for this limitation by also relying on the net increase in cash and cash equivalents and restricted cash as presented in the Company's condensed consolidated statements of cash flows prepared in accordance with GAAP which incorporates all cash movements during the period.

Reconciliations of GAAP Measures to Non-GAAP Measures

Set forth below are reconciliations of (a) the non-GAAP financial measures appearing in the "2018 Business Highlights" section of the CD&A and/or in the CEO letter that will be included in our 2018 Annual Report along

with this Proxy Statement (namely non-GAAP gross margin, non-GAAP operating margin, non-GAAP EPS, and free cash flow) to (b) the GAAP financial measures the Company considers most comparable:

Non-GAAP Gross Profit and Margin	Q4'18	Q2'16*
	($ in thousands)	
GAAP revenues	**$604,474**	**$450,127**
Revenue from intellectual property license	0	6,250
Non-GAAP revenues	**604,474**	**456,377**
GAAP gross profit	**225,210**	**126,473**
Revenue from intellectual property license	0	6,250
Stock-based compensation attributable to cost of revenues	3,842	3,915
Amortization of intangible assets attributable to cost of revenues	49,583	28,714
Merger, integration, related costs and adjustments related to assets held for sale and attributable to cost of revenues	0	3,149
Loss on assets held for sale attributable to cost of revenues	10,869	0
Restructuring costs, including severance, attributable to cost of revenues	135	69
Changes in value of deferred compensation plan attributable to cost of revenues	(468)	86
Non-GAAP gross profit	**$289,171**	**$168,656**
GAAP gross margin (GAAP gross profit as a percentage of GAAP revenues)	37.3%	28.1%
Non-GAAP gross margin (non-GAAP gross profit as a percentage of non-GAAP revenues)	47.8%	37.0%

* Q2'16 was the launch of our Cypress 3.0 strategy. From that period through Q4'18, our gross margin grew by 920 basis points on a GAAP basis and by 1080 basis points on a non-GAAP basis.

Non-GAAP Operating Income and Margin	FY'18	FY'17
	($ in thousands)	
GAAP operating income	**$164,428**	**$78,093**
Stock-based compensation	95,965	91,581
Changes in value of deferred compensation plan	(2,176)	7,364
Loss on assets held for sale	76,591	0
Inventory step-up related to acquisition accounting	—	3,736
Merger, integration and related costs, and adjustments related to assets held for sale	—	4,204
Amortization of intangible assets	218,149	195,255
Restructuring charges	16,841	9,088
Gain on sale of cost method investment	(1,521)	—
Settlement charges	954	2,500
Non-GAAP operating income	**$567,323**	**$391,821**
GAAP operating margin (GAAP operating income as a percentage of GAAP revenue)	6.6%	3.4%
Non-GAAP operating margin (non-GAAP operating income as a percentage of GAAP revenue)	22.8%	16.8%

Non-GAAP Net Income and Non-GAAP EPS	FY'18	FY'17
	(in thousands, except per share data)	
GAAP net income (loss) attributable to Cypress	**$354,592**	**$(80,915)**
Stock-based compensation	95,965	91,581
Changes in value of deferred compensation plan	728	1,277
Merger, integration and related costs, and adjustments related to assets held for sale	—	4,214
Inventory Step-up related to acquisition accounting	—	3,736
Share in net loss and impairment of equity method investees	57,369	71,772
Loss on assets held for sale	76,591	—
Imputed interest on convertible debt and other	17,966	20,538
Settlement charges and other	(2,065)	3,344
Amortization of intangible assets	218,149	195,255
Amortization of debt issuance cost	1,981	—
Restructuring costs, including severance	16,841	9,088
Loss on extinguishment of debt	3,258	4,250
Gain on sale of cost method investment	(1,521)	—
Tax impact of above non-GAAP adjustments	(102,274)	(141,476)
Uncertain tax provision	8,815	6,228
Valuation allowance release, utilization of NOLs including excess tax benefits, and others	(237,420)	135,365
Non-GAAP net income (also called "Profit After Tax")	**$508,975**	**$324,257**
GAAP weighted-average common shares outstanding, diluted	**372,178**	**333,451**
Impact of non-GAAP adjustments on number of diluted shares underlying stock-based compensation awards	5,565	14,838
Adjustments to include the impact of the capped call transactions related to the convertible notes	(2,395)	16,851
Non-GAAP weighted-average common shares outstanding, diluted	**375,348**	**365,140**
GAAP net income per share—diluted	**$0.95**	**$(0.24)**
Per share impact of non-GAAP adjustments above	0.41	1.13
Non-GAAP earnings per share—diluted	**$1.36**	**$0.89**

Free Cash Flow	FY'18	FY'17
	(in thousands)	
GAAP net cash provided by operating activities	**$471,700**	**$403,487**
Acquisition of property, plant, and equipment, net	(63,130)	(51,944)
Free cash flow	**$408,570**	**$351,543**

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