

CYPRESS SEMICONDUCTOR CORP /DE/
Form 10-Q
October 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

Commission file number 1-10079

CYPRESS SEMICONDUCTOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 94-2885898

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

198 Champion Court, San Jose, California 95134
(Address of principal executive offices and zip code)
(408) 943-2600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large 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

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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 Exchange Act). Yes No

The total number of outstanding shares of the registrant's common stock as of October 19, 2018 was 361,950,039.

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PART I—FINANCIAL INFORMATION

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly 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 Quarterly 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, and borrowing arrangements to meet our requirements for the next 12 months; possible recognition of certain unrecognized tax benefits within the next 12 months; our projected revenue from products subject to tariffs; the potential impact of our indemnification obligations; and our plans to remediate an identified material weakness in internal control over financial reporting. 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 Quarterly 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 Quarterly 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, the Philippines, 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (our "Annual Report"), which item is incorporated herein by reference; Part I, Item 3 (Quantitative and Qualitative Disclosures about Market Risk) in this Quarterly Report; and/or Part II, Item 1A (Risk Factors) in this Quarterly Report.

ITEM 1. FINANCIAL STATEMENTS

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$204,747	\$151,596
Accounts receivable, net	404,561	295,991
Inventories	289,436	272,127
Other current assets	118,721	103,637
Total current assets	1,017,465	823,351
Property, plant and equipment, net	292,854	289,554
Equity method investments	111,641	122,514
Intangible assets, net	554,728	715,120
Goodwill	1,439,472	1,439,472
Other long-term assets	141,764	147,039
Total assets	\$3,557,924	\$3,537,050
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$228,159	\$213,101
Accrued compensation and employee benefits	64,913	79,275
Price adjustment and other revenue reserves	225,001	173,592
Dividends payable	39,772	38,741
Current portion of long-term debt	6,911	27,303
Other current liabilities	148,690	143,485
Total current liabilities	713,446	675,497
Deferred income taxes and other tax liabilities	57,283	52,006
Revolving credit facility and long-term portion of debt	870,574	956,513
Other long-term liabilities	30,133	35,442
Total liabilities	\$1,671,436	\$1,719,458
Commitments and contingencies (Note 10)	—	—
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; 536,392 and 525,719 shares issued; 361,665 and 352,220 shares outstanding at September 30, 2018 and December 31, 2017, respectively	5,107	4,936
Additional paid-in-capital	5,656,484	5,659,612
Accumulated other comprehensive income (loss)	2,854	(1,362)
Accumulated deficit	(1,424,228)	(1,511,706)
Stockholders' equity before treasury stock	4,240,217	4,151,480
Less: Shares of common stock held in treasury, at cost; 174,726 and 173,498 shares at September 30, 2018 and December 31, 2017, respectively	(2,354,937)	(2,334,944)
Total Cypress stockholders' equity	1,885,280	1,816,536

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Non-controlling interest	1,208	1,056
Total equity	1,886,488	1,817,592
Total liabilities and equity	\$3,557,924	\$3,537,050

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

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CYPRESS SEMICONDUCTOR CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
(In thousands, except per-share amounts)				
Revenues	\$673,035	\$604,574	\$1,879,366	\$1,730,224
Cost of revenues	413,320	394,878	1,173,121	1,170,675
Gross profit	259,715	209,696	706,245	559,549
Research and development	91,691	90,422	281,617	268,365
Selling, general and administrative	92,943	78,194	262,940	254,785
Total operating expenses	184,634	168,616	544,557	523,150
Operating income	75,081	41,080	161,688	36,399
Interest expense	(17,123)	(20,929)	(51,559)	(59,185)
Other income, net	2,064	2,310	4,203	4,800
Income (loss) before income taxes and non-controlling interest	60,022	22,461	114,332	(17,986)
Income tax provision	(5,618)	(4,500)	(15,829)	(13,930)
Share in net loss of equity method investees	(3,657)	(4,931)	(10,873)	(14,842)
Net income (loss)	50,747	13,030	87,630	(46,758)
Net loss attributable to non-controlling interests	(52)	(14)	(152)	(144)
Net income (loss) attributable to Cypress	\$50,695	\$13,016	\$87,478	\$(46,902)
Net income (loss) per share attributable to Cypress:				
Basic	\$0.14	\$0.04	\$0.24	\$(0.14)
Diluted	\$0.14	\$0.04	\$0.23	\$(0.14)
Cash dividend declared per share	\$0.11	\$0.11	\$0.33	\$0.33
Shares used in net income (loss) per share calculation:				
Basic	361,631	332,873	358,560	329,787
Diluted	374,266	360,311	373,064	329,787

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

CYPRESS SEMICONDUCTOR CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In Thousands)			
Net income (loss)	\$50,747	\$ 13,030	\$87,630	\$(46,758)
Other comprehensive (loss) income:				
Net unrealized gain (loss) on cash flow hedges:				
Net unrealized gain (loss) arising during the period	35	261	5,271	1,776
Net (gain) loss reclassified into earnings for revenue hedges (effective portion)	(79)	(235)	1,149	(4,106)
Net loss (gain) reclassified into earnings for expense hedges (effective portion)	103	1,213	(2,182)	9,851
Net (gain) loss reclassified into earnings for interest rate hedges (effective portion)	(22)	—	(22)	—
Provision for income tax	—	—	—	(808)
Total other comprehensive income	37	1,239	4,216	6,713
Comprehensive income (loss)	50,784	14,269	91,846	(40,045)
Comprehensive loss attributable to non-controlling interest	(52)	(14)	(152)	(144)
Comprehensive income (loss) attributable to Cypress	\$50,732	\$ 14,255	\$91,694	\$(40,189)

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

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30,	October 1,
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$87,630	\$(46,758)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	76,561	68,516
Depreciation and amortization	213,163	196,520
Loss / (Gain) on disposal or impairment of property and equipment	7,154	(1,364)
Share in net loss of equity method investees	10,873	14,842
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	19,970	18,631
Restructuring and other adjustments	14,174	(2,768)
Changes in operating assets and liabilities:		
Accounts receivable	(104,124)	(23,416)
Inventories	(17,601)	(869)
Other current and long-term assets	(30,117)	8,489
Price adjustment and other revenue reserves	46,963	33,635
Accounts payable and other liabilities	4,839	(63,512)
Net cash provided by operating activities	329,485	201,946
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(2,655)	—
Cash received on sale of asset held for sale	—	31,611
Proceeds from divestiture	—	10,000
Distributions, net of contributions for deferred compensation plan	3,460	3,435
Acquisition of property, plant and equipment, net	(58,061)	(44,154)
Cash paid for equity and cost method investments	—	(9,285)
Cash received on sale of cost method investment	18,538	—
Other investing	(4,982)	—
Net cash (used in) investing activities	(43,700)	(8,393)
Cash flows from financing activities:		
Borrowings under revolving credit facility	94,000	90,000
Borrowings under Term Loan B	—	91,250
Repayment of revolving credit facility	(184,000)	(174,000)
Repayment of Term Loan A and Term Loan B	(34,351)	(111,875)
Repurchase of common stock	(19,993)	—
Payment of cash dividends	(117,592)	(108,079)
Proceeds from employee stock-based awards	39,927	37,496
Payment for extinguishment of 2% 2020 Spancion Exchangeable Notes	(10,000)	—
Repayment of equipment leases and other	—	(111)
Costs related to refinancing of debt	(625)	(6,843)
Net cash used in financing activities	(232,634)	(182,162)
Net increase in cash and cash equivalents	53,151	11,391
Cash and cash equivalents, beginning of period	151,596	120,172

Cash and cash equivalents, end of period	\$204,747	\$131,563
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Supplemental Cash Flows Disclosures:

Unpaid purchases of property, plant and equipment	\$3,986	\$1,709
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Years

Cypress Semiconductor Corporation (together with its consolidated subsidiaries, "Cypress" or 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 years 2018 and 2017 each contain(ed) 52 weeks. The third quarter of fiscal 2018 ended on September 30, 2018 and the third quarter of fiscal 2017 ended on October 1, 2017.

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments of a normal, recurring nature, which are necessary to state fairly the financial information included therein. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Cypress' Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Certain balances included on the Consolidated Statements of Operations 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 follow:

	Three Months Ended October 1, 2017		
	As Revised*	Reclassification	As Adjusted
	(In thousands)		
Cost of revenues	\$351,533	\$ 43,345	\$394,878
Research and development	90,422	—	90,422
Selling, general and administrative	73,111	5,083	78,194
Amortization of intangible assets	48,428	(48,428)	—
Operating income	41,080	—	41,080

	Nine Months Ended October 1, 2017		
	As Revised*	Reclassification	As Adjusted
	(In thousands)		
Cost of revenues	\$1,039,662	\$ 131,013	\$1,170,675
Research and development	265,655	2,710	268,365

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Selling, general and administrative	224,697	30,088	254,785
Amortization of intangible assets	146,031	(146,031)	—
Costs and settlement charges related to shareholder matter	14,310	(14,310)	—
Restructuring costs (benefit)	3,470	(3,470)	—
Operating income	36,399	—	36,399

* See "Revision of prior period financial statements" below.

Results reported in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full fiscal year.

Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements Not Yet Adopted

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. Early adoption is permitted.

The Company has developed a project plan to facilitate the implementation of ASU 2016-02. The Company continues to make progress on this plan which includes reaching out to the Company's businesses, as well as assessing the Company's portfolio of active leases. The Company has also selected a lease accounting software solution to support the new reporting requirements and continues to make progress on its configuration and assessing the design of the future lease process.

While the Company has not yet completed its evaluation of the impact the new lease accounting guidance will have on its Consolidated Financial Statements, the Company expects to recognize right of use assets and lease liabilities for its operating leases, which will have a material impact on the Consolidated Balance Sheet upon adoption. 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. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements. The Company is currently evaluating internal controls that would be impacted by the new guidance, to ensure readiness for adoption in the first fiscal quarter of 2019.

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 for interim periods within those fiscal years, 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.

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 is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

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, including interim periods within that fiscal year. 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. 2018-13, "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 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, we adopted Topic 606 using the modified retrospective method applied to all contracts that are 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 our 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. We 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.

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Sales of products with alternative use account for the majority of our revenue and are recognized at a point in time, the timing of such recognition remained the same under Topic 606.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, 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.

We then select 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. We estimate these amounts based on the expected amount to be provided to customers and reduce revenue recognized. We believe that there will not be significant changes to our estimates of variable consideration.

Our non-recurring engineering ("NRE") contracts with customers may include multiple performance obligations. For NRE arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally

determine the standalone selling price of intellectual property licenses based on the residual approach, and service based on cost plus a reasonable margin. We recognize revenue in the amount to which we have 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.

We license or sell our rights to use portions of our 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. We recognize IP revenue upon delivery of the IP if we have no substantive future obligation to perform under the arrangement. We defer 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 our 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 Cypress has a right to an amount of consideration that is unconditional before we transfer a good or service to the customer, those amounts are 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.

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.

We do 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 we recognize revenue at the amount to which we have the right to invoice for services performed.

We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

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 its consolidated financial statements and related disclosures.

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.

Revision of Prior Period Financial Statements

During the fiscal year ended December 31, 2017, the Company identified and recorded certain immaterial errors that originated in fiscal years ended January 1, 2017 and January 3, 2016. These errors consisted primarily of errors in certain assumptions and calculations used in the determination of non-cash stock-based compensation primarily relating to the Employee Stock Purchase Plan ("ESPP"). The Company determined that the errors were not material to the previously issued financial statements and disclosures included in its Annual Report on Form 10-K for the year ended December 31, 2017 or for any quarterly periods included therein.

For the three and nine months ended September 30, 2018, the Company is presenting comparative fiscal 2017 quarterly information. The fiscal 2017 results for the three and nine months ended October 1, 2017 have been revised to reflect the quarterly impact of the adjustments described above.

The effect of the immaterial corrections on the Consolidated Statements of Operations for the three and nine months ended October 1, 2017 is as follows:

Revised Consolidated Statements of Operations Amounts	Three Months Ended October 1, 2017		
	As previously reported	Adjustments	As revised
	(In thousands, except per-share amounts)		
Cost of revenues	\$351,969	\$ (436)) \$351,533
Research and development	91,334	(912)) 90,422
Selling, general and administrative	73,746	(635)) 73,111
Total costs and expenses	565,477	(1,983)) 563,494
Operating income	39,097	1,983	41,080
Income before income taxes and non-controlling interest	20,478	1,983	22,461
Net Income	11,047	1,983	13,030
Net income attributable to Cypress	\$11,033	\$ 1,983	\$13,016
Net loss per share attributable to Cypress:			
Basic	\$0.03	\$ 0.01	\$0.04
Diluted	\$0.03	\$ 0.01	\$0.04

Nine Months Ended October 1, 2017			
Revised Consolidated Statements of Operations Amounts	As		
	previously	Adjustments	As revised
	reported		
(In thousands, except per-share amounts)			
Cost of revenues	\$1,042,377	\$ (2,715)	\$1,039,662
Research and development	269,551	(3,896)	265,655
Selling, general and administrative	228,836	(4,139)	224,697
Total costs and expenses	1,704,575	(10,750)	1,693,825
Operating loss	25,649	10,750	36,399
Loss before income taxes and non-controlling interest	(28,736)	10,750	(17,986)
Net loss	(57,508)	10,750	(46,758)
Net loss attributable to Cypress	\$(57,652)	\$ 10,750	\$(46,902)
Net loss per share attributable to Cypress:			
Basic	\$(0.17)	\$ 0.03	\$(0.14)
Diluted	\$(0.17)	\$ 0.03	\$(0.14)

The effect of the immaterial corrections on the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended October 1, 2017 is as follows:

Three Months Ended October 1, 2017			
Revised Consolidated Statements of Comprehensive Income (Loss):	As		
	previously	Adjustments	As revised
	reported		
(In thousands)			
Net income	\$11,047	\$ 1,983	\$13,030
Comprehensive income	12,286	1,983	14,269
Comprehensive income attributable for Cypress	\$12,272	\$ 1,983	\$14,255

Nine Months Ended October 1, 2017			
Revised Consolidated Statements of Comprehensive Income (Loss):	As		
	previously	Adjustments	As revised
	reported		
(In thousands)			
Net loss	\$(57,508)	\$ 10,750	\$(46,758)
Comprehensive loss	(50,795)	10,750	(40,045)
Comprehensive loss attributable for Cypress	\$(50,939)	\$ 10,750	\$(40,189)

The effect of the immaterial corrections on the Consolidated Statements of Cash Flows for the nine months ended October 1, 2017 is as follows:

Nine Months Ended October 1, 2017			
Revised Consolidated Statements of Cash Flows:	As		
	previously	Adjustments	As revised
	reported		

	(In thousands)		
Net (loss) income	\$(57,508)	\$ 10,750	\$(46,758)
Stock-based compensation expense	79,266	(10,750)	68,516
Net cash provided by operating activities	\$201,946	\$ —	\$201,946

The effect of the immaterial corrections on the disclosures related to stock-based compensation for the three and nine months ended October 1, 2017 is as follows:

	Three Months Ended October 1, 2017		
Revised Stock-Based Compensation Footnote:	As Reported	Adjustments	As Revised
	(In thousands)		
Cost of revenues	\$5,156	\$ (436)	\$4,720
Research and development	9,604	(913)	8,691
Selling, general, and administrative	8,235	(634)	7,601
Total stock-based compensation expense	\$22,995	\$ (1,983)	\$21,012

	Nine Months Ended October 1, 2017		
Revised Stock-Based Compensation Footnote:	As Reported	Adjustments	As Revised
	(In thousands)		
Cost of revenues	\$15,320	\$ (2,715)	\$12,605
Research and development	32,650	(3,897)	28,753
Selling, general, and administrative	31,296	(4,138)	27,158
Total stock-based compensation expense	\$79,266	\$ (10,750)	\$68,516

NOTE 2. REVENUE

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Microcontroller and Connectivity Division ("MCD")	\$413,413	\$373,584	\$1,118,649	\$1,052,018
Memory Products Division ("MPD")	259,622	230,990	760,717	678,206
Total revenues	\$673,035	\$604,574	\$1,879,366	\$1,730,224

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Product revenue	\$663,776	\$581,944	\$1,844,295	\$1,659,643
Non-product revenue (1)	9,259	22,630	35,071	70,581
Total revenue	\$673,035	\$604,574	\$1,879,366	\$1,730,224

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Goods/Services transferred at a point in time	\$670,577	\$591,635	\$1,868,635	\$1,689,450
Goods/Services transferred over time	2,458	12,939	10,731	40,774
Total revenue	\$673,035	\$604,574	\$1,879,366	\$1,730,224

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
United States	\$62,825	\$61,138	\$190,282	\$169,231
China, Taiwan, and Hong Kong	265,758	245,071	732,687	742,293
Japan	164,046	136,378	448,654	378,713
Europe	85,370	76,577	257,807	220,395
Rest of the World	95,036	85,410	249,936	219,592
Total revenue	\$673,035	\$604,574	\$1,879,366	\$1,730,224

NOTE 3. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Accounts receivable, gross	\$405,466	\$301,465
Allowance for doubtful accounts receivable and sales returns	(905)	(5,474)
Total accounts receivable, net	\$404,561	\$295,991

Inventories

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Raw materials	\$14,480	\$15,635
Work-in-process	211,176	176,427
Finished goods	63,780	80,065
Total inventories	\$289,436	\$272,127

Other Current Assets

	As of	
	September	December
	30, 2018	31, 2017
	(In thousands)	
Prepaid tooling - current	\$24,483	\$21,132
Advances to suppliers	19,361	15,968
Prepaid royalty and licenses	17,881	16,630
Derivative assets	4,272	1,197
Value added tax receivable	10,909	11,412
Prepaid expenses	20,856	17,737
Withholding tax receivable and tax advance	5,189	5,790
Other current assets	15,770	13,771
Total other current assets	\$118,721	\$103,637

Other Long-term Assets

	As of	
	September	December
	30, 2018	31, 2017
	(In thousands)	
Employee deferred compensation plan assets	\$48,876	\$49,495
Prepaid tooling - non-current	31,124	25,773
Investment in cost method equity securities	—	17,017
Deferred tax assets	3,553	4,293
Long-term licenses	5,229	8,654
Advance to suppliers	9,824	12,576
Deposit - non-current	9,702	9,830
Pension - non-current	7,979	8,026
Derivatives assets - non-current	4,592	607
Other non-current assets	20,885	10,768
Total other long-term assets	\$141,764	\$147,039

Other Current Liabilities

	As of	
	September	December
	30, 2018	31, 2017
	(In thousands)	
Employee deferred compensation plan liability	\$49,627	\$50,629
Restructuring accrual - current portion (See Note 7)	20,048	9,580
Derivative liability	4,771	2,033
Accrued expenses	48,027	47,789
Accrued interest	3,879	8,094
Other current liabilities	22,338	25,360
Total other current liabilities	\$148,690	\$143,485

Other Long-term Liabilities

	As of September 30, 2018	December 31, 2017
	(In thousands)	
Long-term pension and other employee related liabilities	\$21,324	\$ 16,779
Restructuring accrual - non-current portion (See Note 7)	—	8,596
Asset retirement obligation	5,716	5,693
Other long-term liabilities	3,093	4,374
Total other long-term liabilities	\$30,133	\$ 35,442

NOTE 4. INTANGIBLE ASSETS

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 million. The purchase consideration was allocated to acquired developed technology. Pro forma results of operations of the acquired company have not been presented because the effect of the acquisition was not material.

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

	As of September 30, 2018			As of December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In thousands)					
Developed technology and other intangible assets						
Acquisition-related intangible assets	\$1,199,391	\$(650,327)	\$549,064	\$1,072,824	\$(490,327)	\$582,497
Non-acquisition related intangible assets	19,884	(14,220)	5,664	19,884	(10,828)	9,056
Total developed technology and other intangible assets	1,219,275	(664,547)	554,728	1,092,708	(501,155)	591,553
In-process research and development	—	—	—	123,567	—	123,567
Total intangible assets	\$1,219,275	\$(664,547)	\$554,728	\$1,216,275	\$(501,155)	\$715,120

The below table presents details of the in-process research and development ("IPR&D") assets as of September 30, 2018:

	(In thousands)
As of December 31, 2017	\$ 123,567
Technological feasibility achieved (123,567)	
As of September 30, 2018	\$ —

During the three months ended September 30, 2018, two projects representing \$34.0 million of the total capitalized IPR&D, with estimated useful lives of 4 years, reached technological feasibility and were transferred to developed technology. During the nine months ended September 30, 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.

The following table summarizes the amortization expense by line item recorded in the Condensed Consolidated Statements of Operations:

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	Three Months Ended		Nine Months Ended	
	September 30, 2018		September 30, 2017	
	October 1, 2018		October 1, 2017	
	(In thousands)			
Cost of revenues	\$50,229	\$ 43,345	\$ 146,433	\$ 130,782
Research and development	870	—	3,391	—
Selling, general and administrative	4,310	5,083	13,568	15,249
Total amortization expense	\$55,409	\$ 48,428	\$ 163,392	\$ 146,031
The estimated future amortization expense related to developed technology and other intangible assets as of September 30, 2018 is as follows:				
	(In thousands)			
2018 (remaining three months)	55,728			
2019	215,733			
2020	153,773			
2021	58,489			
2022	33,001			
2023 and thereafter	38,004			
Total future amortization expense	\$ 554,728			

NOTE 5. EQUITY METHOD INVESTMENTS

Privately-held equity investments in entities the Company does not control 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.

Enovix Corporation ("Enovix")

During the fourth quarter of fiscal 2017, the Company determined that its investment in Enovix, which is accounted for as an equity method investment, had suffered an other-than temporary impairment primarily because Enovix had not achieved certain key planned product development milestones. Consequently, the Company recognized a charge of \$51.2 million during the fourth quarter of fiscal 2017, reducing its carrying value to zero as of December 31, 2017. The Company held 27.9% of Enovix's outstanding voting shares as of September 30, 2018.

Deca Technologies Inc. ("Deca")

The estimated fair value of the Company's investment in Deca approximates carrying value of the Company's investment in Deca as of September 30, 2018. Deca continues to be in the process of developing and testing a fan-out wafer level packaging technology. Deca's estimated enterprise value is sensitive to its ability to achieve these product development and testing milestones. Delays or failure by Deca to complete these milestones, or secure funding needed to support the company's growth and cash needs, may have a significant adverse impact on Deca's estimated enterprise value and may result in the recognition of a material impairment in the carrying value of the Company's investment in Deca.

The Company held 52.5% of Deca's outstanding voting shares as of September 30, 2018 and December 31, 2017. The Company's investment in Deca is accounted for as an equity method investment.

The below table presents the changes in carrying value of the equity method investment related to Deca.
As of September 30, 2018

Deca Technologies Inc.
(In thousands)

Carrying value as of December 31, 2017	\$	122,514	
Equity in net loss of equity method investee	(10,873)
Carrying value as of September 30, 2018	\$	111,641	

The following table presents summarized aggregate financial information derived from the respective consolidated financial statements of Deca for the three and nine months ended September 30, 2018 and of Deca and Enovix for the three and nine months ended October 1, 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	October 1, 2017		October 1, 2017	
(In thousands)				
Operating data:				
Revenue	\$5,421	\$4,213	\$14,023	\$11,623
Gross loss	(2,297)	(2,176)	(7,674)	(6,117)
Loss from operations	(6,628)	(11,550)	(20,468)	(31,561)
Net loss	(6,971)	(9,392)	(20,726)	(32,289)
Net loss attributable to Cypress	(3,657)	(4,931)	(10,873)	(14,842)

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

	As of September 30, 2018	As of December 31, 2017
(In thousands)		
Balance Sheet Data:		
Current Assets	\$31,907	\$70,101
Long-term Assets	54,551	55,673
Current Liabilities	9,791	15,615
Long-term Liabilities	824	1,859

NOTE 6. FAIR VALUE MEASUREMENTS

Assets/Liabilities Measured at Fair Value on a Recurring Basis

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

	As of September 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	\$ 134,149	\$—	\$ 134,149	\$ 20,477	\$—	\$ 20,477
Total cash equivalents	134,149	—	134,149	20,477	—	20,477
Other current assets:						
Certificates of deposit	—	870	870	—	972	972
Total other current assets	—	870	870	—	972	972
Employee deferred compensation plan assets:						
Cash equivalents	2,309	—	2,309	3,561	—	3,561
Mutual funds	31,411	—	31,411	27,321	—	27,321
Equity securities	9,473	—	9,473	12,994	—	12,994
Fixed income	—	3,730	3,730	3,415	—	3,415
Stable value funds	—	1,953	1,953	—	2,204	2,204
Total employee deferred compensation plan assets	43,193	5,683	48,876	47,291	2,204	49,495
Interest rate swap	—	6,030	6,030	—	—	—
Foreign exchange forward contracts	—	2,834	2,834	—	1,197	1,197
Total financial assets	\$ 177,342	\$ 15,417	\$ 192,759	\$ 67,768	\$ 4,373	\$ 72,141
Financial Liabilities						
Foreign exchange forward contracts	\$—	\$ 4,788	\$ 4,788	\$—	\$ 1,426	\$ 1,426
Employee deferred compensation plan liability	43,857	5,770	49,627	48,425	2,204	50,629
Total financial liabilities	\$ 43,857	\$ 10,558	\$ 54,415	\$ 48,425	\$ 3,630	\$ 52,055

The Company did not have any material assets or liabilities measured at fair value on a recurring basis using Level 3 inputs as of September 30, 2018 and December 31, 2017.

Valuation Techniques:

There have been no changes to the valuation techniques used to measure the fair value of the Company's assets and liabilities. For a description of the valuation techniques, refer to Note 6 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

Fair Value of Long-Term Debt

As of September 30, 2018, the carrying value of the Company's senior secured credit facility was \$468.3 million (See Note 9). The carrying value of the Company's senior secured credit 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 Company's merger with Spansion Inc. ("Spansion"), which was completed on March 12, 2015 (the "Merger"), are traded in the secondary market for debt instruments and are determined using Level 2 inputs. The principal and the estimated fair value of the principal of these notes as of September 30, 2018 were \$12.0 million and \$34.6 million, respectively. See Note 9 for further details.

The Company's 4.5% 2022 Senior Exchangeable Notes are traded in the secondary market for debt instruments and the fair value is determined using Level 2 inputs. The principal and the estimated fair value of the principal of these notes as of September 30, 2018 were \$287.5 million and \$362.6 million, respectively. See Note 9 for further details.

The Company's 2% 2023 Exchangeable Notes are traded in the secondary market and the fair value is determined using Level 2 inputs. The principal and the estimated fair value of the principal of these notes as of September 30, 2018 were \$150.0 million and \$149.0 million, respectively. See Note 9 for further details.

NOTE 7. 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 will result in elimination of approximately 75 positions across various functions. Additionally as part of the 2018 Plan, in the third quarter of fiscal 2018, the Company increased the reduction in workforce by approximately 50 positions across various functions. The restructuring costs of \$0.2 million and \$3.4 million during the three and nine months ended September 30, 2018, respectively, consist of personnel costs. The Company anticipates that the remaining restructuring accrual balance of \$1.0 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 (the "2017 Plan") which resulted in the elimination of approximately 80 positions worldwide across various functions. A restructuring cost of \$2.4 million for the nine months ended September 30, 2018, consists of personnel costs. The Company anticipates that the remaining restructuring accrual balance of \$30 thousand will be paid out in cash through the first quarter of fiscal 2019.

2016 Restructuring Plan

In September 2016, the Company began the implementation of a reduction in workforce (the "2016 Plan") which resulted in the elimination of approximately 430 positions worldwide across various functions. No restructuring cost was recorded for the three and nine months ended September 30, 2018 related to the 2016 Plan. There was no restructuring cost related to the 2016 Plan during the three months ended October 1, 2017. The restructuring cost of \$3.4 million recorded for the nine months ended October 1, 2017 consists of personnel costs of \$1.8 million, and other charges related to the write-off of certain licenses and facilities-related expenses of \$1.6 million. The Company had paid out the remaining restructuring cost of \$0.5 million, which consisted of personnel costs, by July 1, 2018.

Spanion Integration-Related Restructuring Plan ("Spanion Integration Plan")

In March 2015, the Company implemented cost reduction and restructuring activities in connection with the Merger. As part of this restructuring plan, the Company exited an office space leased by Spanion and had recorded a reserve related to excess lease obligation for the building. During the third quarter of fiscal 2018, the Company began negotiating a termination agreement with the building's owner and, consequently, in the third quarter of fiscal 2018, the Company recorded \$9.8 million of additional restructuring reserve based on estimated termination costs.

The Company anticipates that the remaining restructuring accrual balance of \$19.0 million, which is recorded as part of Other Current Liabilities in the Condensed Balance Sheet, will be paid out in cash through the end of the first quarter of fiscal 2019.

Summary of Restructuring Costs

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

	Three Months		Nine Months	
	Ended		Ended	
	September	October	September	October
	30,	1, 2017	30,	1, 2017
	2018		2018	
	(In thousands)			
Personnel costs	\$234	\$ —	—\$5,569	\$ 1,877
Lease termination costs	9,757	—	9,757	—
Other	—	—	—	1,593
Total restructuring costs	\$9,991	\$ —	—\$15,326	\$ 3,470

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(In thousands)			
Cost of goods sold	\$ (340)	\$ —	\$ 3,136	\$ 231
Research and development	516	—	842	2,710
Selling, general and administrative	9,815	—	11,348	529
Total restructuring costs	\$ 9,991	\$ —	\$ 15,326	\$ 3,470

Roll-Forward of the Restructuring Reserves

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

	(In thousands)				
	2018 Plan	2017 Plan	2016 Plan	Spanion Integration Plan	Total
Accrued restructuring balance as of December 31, 2017	\$ —	\$ 6,139	\$ 743	\$ 11,297	\$ 18,179
Provision	3,382	2,421	(234)	9,757	15,326
Cash payments and other adjustments	(2,364)	(8,530)	(509)	(2,054)	(13,457)
Accrued restructuring balance as of September 30, 2018	\$ 1,018	\$ 30	\$ —	\$ 19,000	\$ 20,048
Current portion of the restructuring accrual	\$ 1,018	\$ 30	\$ —	\$ 19,000	\$ 20,048

NOTE 8. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	October 1, 2017	2018	October 1, 2017	2018
	(In thousands)			
Cost of revenues	\$ 5,120	\$ 4,720	\$ 12,689	\$ 12,605
Research and development	8,206	8,691	28,720	28,753
Selling, general and administrative	10,869	7,601	35,152	27,158
Total stock-based compensation expense	\$ 24,195	\$ 21,012	\$ 76,561	\$ 68,516

As of September 30, 2018 and December 31, 2017, stock-based compensation capitalized in inventory totaled \$3.0 million and \$3.3 million, respectively.

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	October 1, 2017		October 1, 2017	
	(In thousands)			
Stock options	\$—	\$45	\$96	\$155
Restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs")	23,345	17,920	72,366	62,937
Employee Stock Purchase Plan ("ESPP")	850	3,047	4,099	5,424
Total stock-based compensation expense	\$24,195	\$21,012	\$76,561	\$68,516

The following table summarizes the unrecognized stock-based compensation expense, by type of award as of September 30, 2018:

		Weighted- Average Amortization Period
	(In thousands)	(In years)
RSUs and PSUs	\$ 79,973	1.44
ESPP	944	0.25
Total unrecognized stock-based compensation expense	\$ 80,917	1.42

Equity Incentive Program

As of September 30, 2018, approximately 38.4 million stock options, or 21.6 million RSUs and PSUs, were available for grant as stock-based awards under the 2013 Stock Plan, the 2010 Equity Incentive Award Plan and the 2012 Incentive Award Plan. As of September 30, 2018, there were 1.9 million shares of stock available for issuance under the ESPP plan.

Stock Options

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

	Shares	Weighted- Average Exercise Price Per Share	Weighted Average Remaining Contractual term	Aggregate Intrinsic Value
	(In thousands, except per-share amounts)		(In years)	(\$ in millions)
Options outstanding as of December 31, 2017	4,627	\$ 11.63		
Exercised	(875)	\$ 9.86		
Forfeited or expired	(41)	\$ 15.86		
Options outstanding as of April 1, 2018	3,711	\$ 12.00		
Exercised	(266)	\$ 9.87		

Forfeited or expired	(20)	\$ 15.35		
Options outstanding as of July 1, 2018	3,425	\$ 12.15		
Exercised	(314)	\$ 10.36		
Forfeited or expired	(27)	\$ 17.66		
Options outstanding as of September 30, 2018	3,084	\$ 12.28	1.97	9.5
Options exercisable as of September 30, 2018	3,028	\$ 12.31	1.95	\$ 9.3

No options were granted during the three or nine months ended September 30, 2018 and October 1, 2017.

RSUs and PSUs

The following table summarizes the Company's RSU and PSU activities:

	Shares	Weighted-Average Grant Date Fair Value Per Share
	(In thousands, except per-share amounts)	
Balance as of December 31, 2017	11,976	\$ 12.44
Granted	5,310	16.55
Released	(2,707)	12.75
Forfeited	(666)	12.85
Balance as of April 1, 2018	13,913	13.92
Granted	432	16.52
Released	(1,022)	12.99
Forfeited	(324)	13.12
Balance as of July 1, 2018	12,999	14.03
Granted	315	16.68
Released	(2,038)	12.39
Forfeited	(258)	14.14
Balance as of September 30, 2018	11,018	14.41

2018 Long-Term Incentive Program

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 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.

NOTE 9. DEBT

Total debt is comprised of the following:

	As of	
	September 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	1,860	—
Current portion of long-term debt	6,911	27,303
Revolving credit facility and long-term portion of debt		
Senior Secured Credit Facility:		
Revolving Credit Facility	—	90,000
Term Loan B	463,286	468,080
2% 2020 Spansion Exchangeable Notes	11,350	20,375
4.5% 2022 Senior Exchangeable Notes	254,196	246,636
2% 2023 Exchangeable Notes	134,147	131,422
Capital lease obligations	7,595	—
Credit facility and long-term debt	870,574	956,513
Total debt	\$877,485	\$983,816

As of September 30, 2018, the Company was in compliance with all of the financial covenants under all of its debt facilities.

Senior Secured Credit Facility: Revolving Credit Facility and Term Loan B

On March 12, 2018, the Company amended its Amended and Restated Credit and Guaranty Agreement, which governs the Senior Secured Credit Facility. 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 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 Amended and Restated Credit and Guaranty 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.

As of September 30, 2018, \$477.6 million aggregate principal amount of loans, all of which related to Term Loan B, were outstanding under the senior secured credit facility.

2% 2020 Spansion Exchangeable Notes

Pursuant to the Merger, Cypress assumed Spansion's 2% 2020 Spansion Exchangeable Notes (the "Spansion Notes"). The Spansion Notes 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. The Spansion Notes may be due and payable immediately upon certain events of default.

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 Condensed Consolidated Statements of Operations.

The Spansion Notes consisted of the following:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Equity component	\$22,971	\$ 42,130
Liability component:		
Principal	11,990	21,990
Less debt discount and debt issuance costs, net	(640)	(1,615)
Net carrying amount	\$11,350	\$ 20,375

The following table summarizes the components of the total interest expenses on the Spansion Notes recognized during the three and nine months ended September 30, 2018 and October 1, 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Contractual interest expense at 2% per annum	\$61	\$ 746	\$182	\$ 2,238
Accretion of debt discount	76	939	240	2,786
Total	\$137	\$ 1,685	\$422	\$ 5,024

4.5% 2022 Exchangeable Notes

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

The 2022 Notes consisted of the following:

	As of	
	September 30, 2018	December 31, 2017
	(in thousands)	
Equity component	\$47,686	\$ 47,686
Liability component:		
Principal	287,500	287,500
Less debt discount and debt issuance costs, net	(33,304)	(40,864)
Net carrying amount	\$254,196	\$ 246,636

The following table summarizes the components of the total interest expense related to the 2022 Notes recognized as expense:

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	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	October 1, 2017		October 1, 2017	
(In thousands)				
Contractual interest expense	\$3,198	\$3,271	\$9,667	\$9,811
Amortization of debt issuance costs	317	337	958	976
Accretion of debt discount	2,184	2,202	6,602	6,605
Total	\$5,699	\$5,810	\$17,227	\$17,392

Capped Calls

In connection with the issuance of the 2022 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 2022 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 expire in January 2022.

2% 2023 Exchangeable Notes

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

The 2023 Notes consisted of the following:

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
Equity component	\$15,028	\$15,028
Liability component:		
Principal	150,000	150,000
Less debt discount and debt issuance costs, net	(15,853)	(18,578)
Net carrying amount	\$134,147	\$131,422

The following table summarizes the component of the total interest expense related to the 2023 Notes recognized as an expense:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	October 1, 2017		October 1, 2017	
(In thousands)				
Contractual interest expense at 2% Per annum	\$748	\$	—\$2,244	\$
Amortization of debt issuance costs	175	—	525	—
Accretion of debt discount	735	—	2,205	—
Total	\$1,658	\$	—\$4,974	\$

Capital Lease Commitments

In June 2018, the Company entered into a capital lease agreement for equipment. The lease has a term of 5 years through June 2023. Additionally, the Company had certain capital lease arrangements related to certain equipment at its Austin manufacturing facility. As of September 30, 2018, the Company recorded a capital lease obligation of approximately \$9.4 million.

Future Debt Payments

The future scheduled principal payments for the Company's outstanding debt as of September 30, 2018, were as follows:

Fiscal Year	Total (In thousands)
2018 (remaining three months)	\$ 1,528
2019	6,481
2020	18,744
2021	467,793
2022 and after	441,972
Total	\$ 936,518

NOTE 10. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases certain facilities and equipment under non-cancelable operating lease agreements that expire at various dates through fiscal 2022 and thereafter. Some leases include renewal options, which would permit extensions of the expiration dates at rates approximating fair market rental values at the time of the extension.

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

Fiscal Year	(In thousands)
2018 (remaining three months)	\$ 8,166
2019	29,714
2020	12,345
2021	7,823
2022	5,906
2023 and thereafter	4,284
Total	\$ 68,238

Restructuring accrual balances related to operating facility leases were \$19.0 million and \$11.5 million as of September 30, 2018 and December 31, 2017, respectively.

Product Warranties

The Company generally 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 its warranty costs based upon its 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 reflects the remaining obligations based on the anticipated returns over the balance of the obligation period.

The following table presents the Company's warranty reserve activities:

Three Months Ended	Nine Months Ended
-----------------------	----------------------

September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
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(In thousands)

Beginning balance	\$4,445	\$4,317	\$4,445	\$3,996
Settlements made	(1,456)	(1,104)	(4,434)	(1,733)
Provisions	1,456	1,233	4,434	2,183
Ending balance	\$4,445	\$4,446	\$4,445	\$4,446

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 of materials 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 earnings.

Litigation and Asserted Claims

On August 15, 2016, a patent infringement lawsuit was filed by the California Institute of Technology ("Caltech") against the Company in the U.S. District Court for the Central District of California (Case No. 16-cv-03714). The other co-defendants are Apple Inc., Avago Technologies Limited, Broadcom Corporation, and Broadcom Limited. Caltech alleged that defendants infringe four patents. On September 7, 2018, the claims against the Company were dismissed with prejudice and, accordingly, this matter is considered closed.

In addition, the Company is currently involved in various other 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 September 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 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 September 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 11. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES

The Company enters into multiple foreign exchange forward contracts to hedge certain foreign currency risk resulting from fluctuations in Japanese yen (¥) and Euro (€) exchange rates. In addition, the Company entered into fixed-for-interest rate forward swap agreements and has designated these swaps as hedging instruments. 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 undesignated as cash flow hedges or not, these forward contracts protect the Company against the variability of forecasted

foreign currency cash flows resulting from revenues, expenses and net 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 ongoing 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 have maturities 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 comprehensive income on the Condensed Consolidated Balance Sheets, until the forecasted transaction occurs. 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. For the nine months ended September 30, 2018, the Company had a loss of \$1.7 million, which was related to cash flow hedges, recorded in other comprehensive income.

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 interest and other income, net in its Condensed Consolidated Statements of Operations.

Designated Hedges

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

Buy / Sell	September 30, 2018	December 31, 2017
	(In millions)	
U.S. dollar / Japanese Yen	\$75.7 / ¥8,260	\$58.7 / ¥6,476
Japanese Yen / U.S. dollar	¥17,557 / \$160.1	¥9,811 / \$88.4

Non-designated hedges

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

Buy / Sell	September 30, 2018	December 31, 2017
	(In millions)	
U.S. dollar / EUR	\$7.0 / €6.0	\$8.8 / €7.4
U.S. dollar / Japanese Yen	\$15.4 / ¥1,685	\$15.9 / ¥1,744
Japanese Yen / U.S. dollar	¥3,569 / \$32.5	¥4,790 / \$43.0

In December 2017, the Company entered into fixed-for-floating interest rate forward swap agreements with two counterparties to swap variable interest payments for fixed interest payments on \$300 million of certain debt. 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. 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. For the nine months ended September 30, 2018, the Company has recognized a gain of \$5.9 million, which was recorded in other comprehensive income.

The effect of derivative instruments on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 was not material.

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

Balance Sheet location	September 30, 2018		December 31, 2017	
	Derivatives designated as hedging instruments (In thousands)	Derivatives not designated as hedging instruments	Derivatives designated as hedging instruments	Derivatives not designated as hedging instruments
Other Current Assets				
Derivative Asset	\$3,637	\$ 635	\$805	\$ 392
Non-current Assets				
Derivative Asset	\$4,592	\$ —	\$—	\$ 607
Other Current Liabilities				
Derivative Liability	\$3,649	\$ 1,122	\$775	\$ 1,258
Non-Current Liabilities				
Derivative Liability	\$17	\$ —	\$—	\$ —

NOTE 12. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
	(In thousands, except per-share amounts)			
Net income (loss) attributable to Cypress	\$50,695	\$ 13,016	\$87,478	\$(46,902)
Weighted-average common shares	361,631	332,873	358,560	329,787
Weighted-average diluted shares	374,266	360,311	373,064	329,787
Net income (loss) per share—basic	\$0.14	\$ 0.04	\$0.24	\$(0.14)
Net income (loss) per share—diluted	\$0.14	\$ 0.04	\$0.23	\$(0.14)

For the three months ended September 30, 2018 and October 1, 2017, approximately 2.8 million and 0.8 million weighted average potentially dilutive shares underlying outstanding stock-based awards and convertible debt, respectively, were excluded in the computation of diluted net loss per share because their effect would have been anti-dilutive. For the nine months ended September 30, 2018 and October 1, 2017, approximately 2.7 million and 26.0 million weighted average potentially dilutive shares underlying outstanding stock-based awards and convertible debt,

respectively, were excluded in the computation of diluted net loss per share because their effect would have been anti-dilutive.

NOTE 13. INCOME TAXES

The Company's income tax expense was \$5.6 million and \$4.5 million for the three months ended September 30, 2018 and October 1, 2017, respectively. The income tax expense was \$15.8 million and \$13.9 million for the nine months ended September 30, 2018, and October 1, 2017, respectively. Income tax expense for the three and nine months ended September 30, 2018 was primarily attributable to non-U.S. taxes associated with the Company's non-U.S. operations.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law, making significant changes to the U.S. 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 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 this guidance, in the period of enactment of the Act, the Company estimated the deemed repatriation would result in the utilization of \$46 million of net operating loss carryforwards. As a result of further analysis of our cumulative foreign earnings balances affecting the deemed repatriation, as of September 30, 2018, the Company now estimates the deemed repatriation will result in the utilization of \$34 million of net operating loss carryforwards. There is no impact to the Company's effective income tax rate as a result of the change in estimated deemed repatriation as the Company continues to expect to fully offset the additional taxable income through the utilization of net operating loss carryforwards, which are subject to a full valuation allowance. Additional work is still necessary for a more detailed analysis of the Company's historical foreign earnings as well as potential correlative adjustments. There have been no other changes to provisional estimates disclosed in the period of enactment under SAB 118.

Management regularly evaluates the realizability of the Company's net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a full valuation allowance on its deferred tax assets in the United States as of September 30, 2018. The Company intends to continue maintaining a full valuation allowance on its deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, considering the Company's current assessment of the probability of maintaining profitability, there is a reasonable possibility that, within the next 12 months, sufficient positive evidence may become available to reach a conclusion that a significant portion, or all, of the valuation allowance will no longer be needed. As such, the Company may release a significant portion, or all, of its valuation allowance against its deferred tax assets within the next 12 months. This release, if any, would result in the recognition of certain deferred tax assets and a material decrease to income tax expense for the period such release is recorded.

Unrecognized Tax Benefits

As of September 30, 2018, and December 31, 2017, the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate totaled \$30.8 million and \$28.9 million, respectively.

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

- completion of examinations by, and resolution of agreements with, U.S. or foreign taxing authorities; and
- expiration of statutes of limitations applicable to the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. The Company believes it is reasonably possible that it may recognize up to approximately \$2.8 million of its existing unrecognized tax benefits

within the next 12 months as a result of the events listed above.

Classification of Interest and Penalties

The Company classifies interest and penalties as components of the income tax provision in the Condensed Consolidated Statements of Operations. As of September 30, 2018 and December 31, 2017, the amounts of accrued interest and penalties totaled \$12.3 million and \$11.0 million, respectively.

NOTE 14. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

The Company designs, develops, manufactures and markets a broad range of solutions for embedded systems, from automotive, industrial, consumer electronics, and medical products.

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 ("CODM"), or decision-making group, in making decisions on how to allocate resources and assess performance. The 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).

Income (Loss) Before Income Taxes

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
MCD	\$58,896	\$23,378	\$108,467	\$35,601
MPD	96,650	78,514	278,579	192,896
Unallocated items:				
Stock-based compensation expense	(24,195)	(21,012)	(76,561)	(68,516)
Restructuring charges	(9,991)	—	(15,326)	(3,470)
Amortization of intangible assets	(55,875)	(48,428)	(164,256)	(146,030)
Reimbursement payment in connection with the cooperation and settlement agreement	—	—	—	(3,500)
Changes related to debt extinguishment	—	—	630	—
Changes in value of deferred compensation plan	(463)	(1,166)	(898)	(1,391)
Gain on sale of cost method investment	—	—	1,521	—
Other adjustments	(5,000)	(8,825)	(17,824)	(23,576)
Income (Loss) from operations before income taxes	\$60,022	\$22,461	\$114,332	\$(17,986)

The Company does not allocate goodwill and intangible assets impairment charges, impact of purchase accounting, IPR&D impairment, severance and retention costs, acquisition-related costs, stock-based compensation, interest income and other, and interest expense to its segments. In addition, the Company does not allocate assets to its segments. The Company excludes these items consistent with the manner it internally evaluates its results of operations.

Geographical Information

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

	As of	
	September 30, 2018	December 31, 2017
	(In thousands)	
United States	\$184,647	\$186,824
Philippines	34,651	36,747
Thailand	33,904	29,151
Japan	10,520	12,211
Other	29,132	24,621

Total property, plant and equipment, net \$292,854 \$ 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

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Outstanding accounts receivable from two of the Company's distributors accounted for 21.7% and 16.4% of its consolidated accounts receivable as of September 30, 2018. Outstanding accounts receivable from one of the Company's distributors accounted for 28.0% of its consolidated accounts receivable as of December 31, 2017. Revenue from sales to two of the Company's distributors accounted for 17.7% and 15.1% of its consolidated revenues for the three months ended September 30, 2018. Revenue from sales to two of the Company's distributors accounted for 18.6% and 13.8% of its consolidated revenues for the nine months ended September 30, 2018. No other distributors or customers accounted for 10% or more of the Company's consolidated revenues for the three months or nine months ended September 30, 2018.

Revenue from sales to one of the Company's distributors accounted for 16.0% of its consolidated revenues for the three months ended October 1, 2017. Revenue from sales to one of the Company's distributors accounted for 16.4% of its consolidated revenues for the nine months ended October 1, 2017. No other distributors or customers accounted for 10% or more of the Company's consolidated revenues for the three months or nine months ended October 1, 2017.

NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive loss, net of tax, by components are as follows (in thousands):

	Accumulated net unrealized income (loss) on cash flow hedges	Cumulative translation adjustment and other	Unrecognized gain on the defined benefit Plan	Accumulated other comprehensive income (loss)
Balance as of December 31, 2017	(504)	6	(864)	(1,362)
Other comprehensive income (loss) before reclassification	4,464	—	—	4,464
Amounts reclassified to operating income (loss)	(530)	—	—	(530)
Balance as of April 1, 2018	\$ 3,430	\$ 6	\$ (864)	\$ 2,572
Other comprehensive income (loss) before reclassification	\$ 772	\$ —	\$ —	\$ 772
Amounts reclassified to operating income (loss)	\$ (527)	\$ —	\$ —	\$ (527)
Balance as of July 1, 2018	\$ 3,675	\$ 6	\$ (864)	\$ 2,817
Other comprehensive income (loss) before reclassification	\$ 35	\$ —	\$ —	\$ 35
Amounts reclassified to operating income (loss)	\$ 2	\$ —	\$ —	\$ 2
Balance as of September 30, 2018	\$ 3,712	\$ 6	\$ (864)	\$ 2,854

NOTE 16. 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 other entity was a related party of the Company

Three Months Ended	Nine Months Ended
-----------------------	----------------------

	September 30, 2018		October 1, 2017	
	2018	2017	2018	2017
(In thousands)				
Total revenues	22	58	211	612
Total purchases	5,776	21,589	11,146	26,071

As of September 30, 2018, and October 1, 2017, balances receivable from related parties totaled \$65.0 thousand and \$4.5 million, respectively, and balances payable to related parties totaled \$2.0 million and \$9.1 million, respectively.

NOTE 17. EQUITY

Stock Buyback Program

On October 20, 2015, the Company's Board of Directors (the "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 authorized funds will depend on a variety of factors including the

market price of the common stock, regulatory, legal, and contractual requirements, other uses of cash, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at the discretion of the Board. During the fiscal quarter ended September 30, 2018, the Company repurchased 598 thousand shares for an aggregate consideration of \$10.0 million. As of September 30, 2018 the total remaining dollar amount of shares that may be repurchased under the program was approximately \$190.8 million.

Dividend

On August 3, 2018, the Company's Board of Directors approved a cash dividend of \$0.11 per share payable to holders of record of its common stock at the close of the business day on September 27, 2018. This cash dividend was paid on October 18, 2018 and totaled approximately \$39.8 million which was accrued for and shown as "Dividends payable" on the Condensed Consolidated Balance Sheets as of September 30, 2018.

NOTE 18. SUBSEQUENT EVENT

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 the debt with future changes in fair value of these swaps recognized in the accumulated other comprehensive income.

On October 23, 2018, the Company entered into a joint venture arrangement (JV) with SK hynix system ic Inc. Upon close of the transaction, the Company will contribute \$2.4 million in cash and will transfer its NAND Flash business to the JV. The Company will own 40% of the JV's common stock. The transaction is expected to be completed in the first quarter of fiscal 2019, subject to applicable regulatory approvals and other customary closing conditions. The NAND business is presently reported as part of the MPD segment. The Company recorded \$43.3 million and \$137.9 million in revenue from the NAND business during the three and nine months ended September 30, 2018, respectively; and \$41.6 million and \$119.7 million during the three and nine months ended October 1, 2017, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, which are discussed in the "Cautionary Note Regarding Forward-Looking Statements" section in Part I of this Quarterly Report on Form 10-Q.

Overview

Cypress is a leader in advanced embedded solutions for the world's most innovative automotive, industrial, consumer electronics and medical products. Cypress' superior connectivity, flexible computing, fail-safe storage, and secure, ultra-low power solutions help developers bring their smart products to market quickly and easily. Cypress is committed to providing customers with the best support and development resources enabling them to disrupt markets by creating new product categories in record time.

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 flexible, high-performance microcontroller (MCU) and analog solutions and robust wireless and wired connectivity solutions. The portfolio includes Traveo™ automotive MCUs, PSoC® programmable MCUs and general-purpose MCUs with Arm® Cortex®-M4, -M3, -M0+ and R4 CPUs; analog PMIC Power Management ICs; CapSense® capacitive-sensing controllers; TrueTouch® touchscreen solutions; Wi-Fi®, Bluetooth® and Bluetooth Low Energy solutions and the WICED® IoT development platform; and a broad line of USB controllers, including solutions for the USB-C and USB Power Delivery standards. 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 memory (SRAM), F-RAM™ ferroelectric memory devices, nonvolatile SRAM (nvSRAM), other specialty memories and timing solutions. This division also includes our nonvolatile DIMM subsidiary AgigA Tech Inc.

Business Strategy

Refer to Part I Item 1. Business in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our strategies.

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 in Part I Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2017 as well as in Part II Item 1A in this Quarterly Report on Form 10-Q.

Results of Operations

Revenues

Our total revenues increased by \$68.5 million, or 11.3%, to \$673.0 million for the three-month period ended September 30, 2018 compared to the same period in the prior year. The increase was primarily driven by strength in automotive and wireless connectivity, microcontrollers, and memory products.

Our total revenues increased by \$149.1 million, or 8.6%, to \$1,879.4 million for the nine-month period ended September 30, 2018 compared to the same period in the prior year. The increase was primarily driven by strength in memory products, microcontrollers, and wired and wireless connectivity products.

The following table summarizes our consolidated revenues by segments:

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
	(In thousands)			
Microcontroller and Connectivity Division ("MCD")	\$413,413	\$373,584	\$1,118,649	\$1,052,018
Memory Products Division ("MPD")	259,622	230,990	760,717	678,206
Total revenues	\$673,035	\$604,574	\$1,879,366	\$1,730,224

Microcontroller and Connectivity Division:

Revenues recorded by MCD increased by \$39.8 million, or 10.7%, in the three months ended September 30, 2018 compared to the same prior year period. The increase was primarily driven by the growth in microcontroller, automotive and wireless connectivity products. MCD revenue increased compared to the same three-month period of the prior year due to higher sales of PSoC, automotive and wireless products. MCD revenue during the three months ended September 30, 2018 benefited from increase in volume of product sales as a result of new program ramps at certain customers.

Revenues recorded by MCD increased by \$66.6 million, or 6.3%, in the nine months ended September 30, 2018 compared to the same prior year period. The increase was primarily driven by growth in microcontroller, wireless connectivity and wired products. MCD revenue during the nine months ended September 30, 2018 benefited from increase in volume of product sales as a result of new program ramps at certain customers.

Memory Products Division:

Revenues recorded by MPD increased by \$28.6 million, or 12.4%, in the three months ended September 30, 2018 compared to the same prior year period. The increase was primarily due to growth in revenue from Flash memory products. MPD revenue increased compared to the same three-month period of the prior year primarily due to shift in product sales mix towards high density NOR products, as well as increases in average selling price ("ASP") of NAND products.

Revenues recorded by MPD increased by \$82.5 million, or 12.2%, in the nine months ended September 30, 2018 compared to the same prior year period. The increase was primarily due to growth in revenue from the Flash memory products. MPD revenue increased compared to the same nine-month period of the prior year primarily due to shift in product sales mix towards high density NOR product as well as increases in average selling price ("ASP") of NAND products.

Gross Margin

	Three Months Ended		Six Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
	(In thousands)			
Revenues	\$673,035	\$604,574	\$1,879,366	\$1,730,224
Less: Cost of revenues	\$(413,320)	\$(394,878)	\$(1,173,121)	\$(1,170,675)
Gross profit	259,715	209,696	706,245	559,549
Gross margin (%)	38.6	% 34.7	% 37.6	% 32.3

Our gross margin improved to 38.6% in the three months ended September 30, 2018 from 34.7% in the three months ended October 1, 2017. The primary drivers of the improvement in gross margin were a shift in the product mix towards higher density memory products and decrease in commoditized products, higher fab utilization, which increased from 78.3% in the three months ended October 1, 2017 to 82.9% in the three months ended September 30, 2018, and a reduction in the cost of certain products. This favorability was partially offset by an increase in write-downs of carrying value of inventory for the three months ended September 30, 2018 as compared to the same prior year period. Write-down of inventories during the three months ended September 30, 2018 was \$9.0 million as compared to \$6.6 million in the three months ended October 1, 2017.

Write-down of inventories unfavorably impacted our gross margin by 1.3% and 1.1% for the three months ended September 30, 2018 and October 1, 2017, respectively. Sale of inventory that was previously written off or written down aggregated to \$5.2 million and \$9.9 million for the third quarters of fiscal years 2018 and 2017, which favorably impacted our gross margin by 0.8% and 1.6%, respectively. During the first quarter of 2018, we initiated a restructuring plan (The "2018 Plan") which will contribute towards increasing longer term operational efficiency. The 2018 Plan initially estimated a reduction of approximately 75 positions. During the third quarter of 2018, the plan was expanded to add a reduction of another approximately 50 positions, which has contributed to lower unit costs in the third quarter of 2018. Included in cost of revenues are amortization of intangible assets of \$50.2 million and \$43.3 million for the third quarters of fiscal years 2018 and 2017, respectively.

Our gross margin improved to 37.6% in the nine months ended September 30, 2018 from 32.3% in the nine months ended October 1, 2017. The primary drivers of the improvement in gross margin were a shift in the product mix towards higher density memory products and decrease in commoditized products, higher fab utilization, which increased from 72.0% in the nine months ended October 1, 2017 to 80.1% in the nine months ended September 30, 2018, and a reduction in the cost of certain products. Additionally, there was a reduction in write-downs of carrying value of inventory during the nine months ended September 30, 2018 as compared to the same prior year period. Write-down of inventories during the nine months ended September 30, 2018 was \$18.4 million as compared to \$26.1 million in the nine months ended October 1, 2017. Write-down of inventories unfavorably impacted our gross margin by 1.0% and 1.5% for the nine months ended September 30, 2018 and October 1, 2017, respectively. Sale of inventory that was previously written off or written down aggregated to \$17.5 million and \$27.6 million for the nine months ended September 30, 2018 and October 1, 2017, respectively, which favorably impacted our gross margin by 0.9% and 1.6%, respectively. Included in the cost of revenues are restructuring costs of \$3.1 million and \$0.2 million for the nine months ended September 30, 2018 and October 1, 2017, respectively. The increase in restructuring costs is primarily due to the 2018 Plan, which we began implementing in the first quarter of 2018 and which is favorably impacting costs starting in the second half of 2018. Included in cost of revenues is the amortization of intangible assets of \$146.4 million and \$130.8 million for the nine months ended September 30, 2018 and October 1, 2017, respectively.

Research and Development ("R&D") Expenses

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
	(In thousands)			
R&D expenses	\$91,691	\$90,422	\$281,617	\$268,365
As a percentage of revenues	13.6 %	15.0 %	15.0 %	15.5 %

R&D expenses increased by \$1.3 million in the three months ended September 30, 2018 compared to the same period of the prior year. The increase was mainly attributable to \$1.8 million in higher non-labor project costs, partially offset by \$0.5 million in lower stock-based compensation.

R&D expenses increased by \$13.3 million in the nine months ended September 30, 2018 compared to the same period of the prior year. The increase was mainly driven by \$11.4 million in higher labor costs from an increase in headcount primarily in our MCD segment, increase in variable incentives, and \$1.9 million of other R&D expenses, mainly depreciation and non-labor project costs.

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

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017

	(In thousands)					
SG&A expenses	\$92,943	\$78,194	\$262,940	\$254,785		
As a percentage of revenues	13.8	% 12.9	% 14.0	% 14.7	%	

SG&A expenses increased by \$14.7 million in the three months ended September 30, 2018 compared to the same period of the prior year. The increase was mainly due to a \$9.8 million increase in restructuring charges for estimated lease termination costs, a \$3.3 million increase in advertising and marketing communication, a \$3.3 million increase in stock-based compensation

expense, and a \$0.6 million increase in professional fees and employee education expense. These increases were partially offset by a \$2.0 million decrease in labor expenses.

SG&A expenses increased by \$8.2 million in the nine months ended September 30, 2018 compared to the same period of the prior year. The increase was due to a \$10.8 million increase in restructuring charges, which mainly consist of estimated lease termination costs, a \$8.0 million increase in stock-based compensation expense, a \$5.4 million increase in professional fees, a \$4.3 million increase in marketing communication, a \$0.9 million increase in facilities expenses, and a \$0.8 million increase in depreciation and expensed assets. These increases were partially offset by a \$14.3 million decrease in costs and settlement charges related to shareholder matters, a \$5.8 million decrease in labor expenses, and a \$1.7 million decrease in amortization of intangible assets allocation.

Income Taxes

Our income tax expense was \$5.6 million and \$4.5 million for the three months ended September 30, 2018 and October 1, 2017, respectively. Our income tax expense was \$15.8 million and \$13.9 million for the nine months ended September 30, 2018 and October 1, 2017, respectively. The income tax expense for the three months and nine months ended September 30, 2018 and October 1, 2017 was primarily attributable to non-U.S. taxes associated with our non-U.S. operations.

Equity Method Investments

Our two equity investees are Deca Technologies Inc. ("Deca") and Enovix Corporation ("Enovix"). The carrying value of our investment in Enovix has been zero since December 31, 2017. As of September 30, 2018 the carrying value of our investment in Deca was \$111.6 million, which approximates its fair value.

For the three months ended September 30, 2018, our share in Deca's net loss was \$3.7 million. By comparison, for the corresponding period of 2017 our share in the combined net loss of Deca and Enovix was \$4.9 million. Deca continues to be in the process of developing and testing a fan-out wafer level packaging technology. Deca's estimated enterprise value is sensitive to its ability to achieve these product development and testing milestones. Delays or failure by Deca to complete these milestones, or secure funding needed to support its growth and cash needs, may have a significant adverse impact on Deca's estimated enterprise value and may result in our recognition of a material impairment in the carrying value of our investment in Deca. We held 52.5% of Deca's outstanding voting shares as of September 30, 2018 and December 31, 2017.

Liquidity and Capital Resources

Our Revolving Credit Facility has a capacity of \$540 million which was undrawn as of September 30, 2018. The following table summarizes information regarding our cash and cash equivalents and working capital:

	As of	
	September 30,	December 31,
	2018	2017
	(In thousands)	
Cash and cash equivalents	\$ 204,747	\$ 151,596
Working capital	\$ 304,019	\$ 147,854

Key Components of Cash Flows

Nine Months Ended	
September 30,	October 1,
2018	2017

(In thousands)

Net cash provided by operating activities	\$329,485	\$201,946
Net cash (used in) investing activities	\$(43,700)	\$(8,393)
Net cash used in financing activities	\$(232,634)	\$(182,162)

Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2018 was \$329.5 million as compared to \$201.9 million in the nine months ended October 1, 2017. Net income recorded during the nine months ended September 30, 2018 was \$87.6 million which included net non-cash items of \$341.9 million. Cash from operations in the nine months ended

September 30, 2018 was impacted by a \$100.0 million increase in operating assets and liabilities. The non-cash items primarily consisted of:

- depreciation and amortization of \$213.2 million;
- stock-based compensation expense of \$76.6 million;

• accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt of \$20.0 million;

• loss on disposal and impairment of property and equipment of \$7.2 million;

• our share in the net loss of an equity method investee of \$10.9 million; and

• restructuring costs and other adjustments of \$14.2 million.

The increase in operating assets and liabilities for the nine months ended September 30, 2018 of \$100.0 million was primarily due to the following:

• an increase in accounts receivable of \$104.1 million due to timing of invoicing and collections. Days sales

outstanding for the nine months ended September 30, 2018 was 55 days as compared to 54 days in the nine months ended October 1, 2017;

• an increase in other current and long-term assets of \$30.1 million for prepayments for licenses and other vendors;

• an increase in inventories of \$17.6 million to support a higher revenue run rate; and

• an increase in accounts payable and accrued and other liabilities of \$4.8 million mainly due to timing of payments to vendors;

partially offset by an increase of \$51.4 million in price adjustments and other revenue reserves for sales to distributors due to an increase in revenue during the nine months of 2018.

Investing Activities

During the nine months ended September 30, 2018, we used approximately \$43.7 million of cash in our investing activities primarily due to:

• property and equipment expenditures of \$58.1 million relating to purchases of certain manufacturing facility equipment; and

• an expenditure of \$2.7 million relating to acquisition of an embedded software company focused on the IoT market in the third quarter of fiscal 2018;

partially offset by proceeds of \$18.5 million from the sale of a cost method investment and 3.5 million in net distributions for the deferred compensation plan

Financing Activities

During the nine months ended September 30, 2018, we used approximately \$232.6 million of cash in our financing activities, primarily related to:

• dividend payments of \$117.6 million, net repayments of \$90.0 million on the Revolving Credit Facility, and payments of \$34.4 million on Term Loan B;

• a \$20.0 million outlay related to the repurchase of stock; and

• a \$10.0 million outlay related to partial extinguishment of the 2% 2020 Spansion Exchangeable Notes;

partially offset by proceeds of \$39.9 million from employee equity awards.

Liquidity and Contractual Obligations

Contractual Obligations

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

	Total	2018 (Remaining 3 months)	2019 and 2020	2021 and 2022	After 2022
	(In thousands)				
Purchase obligations (1)	\$434,479	\$ 39,477	\$ 303,806	\$39,356	\$51,840
Operating lease commitments (2)	68,238	8,166	42,059	13,729	4,284
Capital lease commitments	10,931	350	3,935	3,698	2,948
Term Loan B	477,573	1,263	10,102	466,208	—
2% 2020 Spansion Exchangeable Notes	11,990	—	11,990	—	—
4.5% 2022 Senior Exchangeable Notes	287,500	—	—	287,500	—
2% 2023 Exchangeable Notes	150,000	—	—	—	150,000
Interest and commitment fee due on debt (3)	111,938	9,341	73,075	29,272	250
Asset retirement obligations	5,716	290	3,251	1,850	325
Total contractual obligations	\$1,558,365	\$ 58,887	\$ 448,218	\$841,613	\$209,647

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

(2) Operating leases include payments relating to Spansion's lease for which the Company is negotiating a termination agreement, see Note 7.

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

In December 2017, we entered into fixed-for-floating interest rate forward swap agreements with two counterparties, to swap variable interest payments on certain 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. The interest rate on the variable debt was fixed in December 2017 and became effective in April 2018; if interest rates at the time of the scheduled periodic payments are below this fixed rate, we will pay the difference between the fixed and actual rates.

Capital Resources and Financial Condition

Our long-term strategy is to maintain a minimum amount of cash and cash equivalents for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and debt securities, payments of regularly scheduled cash dividends, repayment of debt, and share repurchases. As of September 30, 2018, our cash, cash equivalents and short-term investment balance was \$204.7 million as compared to \$151.6 million as of December 31, 2017. As of September 30, 2018, approximately 32.6% of our cash was held by our non-U.S.

subsidiaries. While these amounts are primarily denominated in U.S. dollars, a portion is denominated in foreign currencies. All non-U.S. cash balances are exposed to local political, banking, currency control, and other risks. In addition, these amounts, if repatriated, may be subject to tax and other transfer restrictions.

We believe that 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, pursue 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 September 30, 2018, we were in compliance with all of the financial covenants under all of our debt facilities.

Critical Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and the data used to prepare them. Our Condensed 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 Condensed Consolidated Financial Statements under Part I, Item 1 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, 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.

As discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2017, we consider the following accounting policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements:

Revenue Recognition

Business Combinations

Valuation of Inventories

Valuation of Long-Lived Assets

Valuation of Goodwill

Cash Flow Hedges

Stock-Based Compensation

Employee Benefits Plan

Accounting for Income Taxes

As discussed in Note 1, we adopted Topic 606 on January 1, 2018. There have been no other changes to our critical accounting policies and estimates since the filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 3. 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, certificates of deposit, and corporate securities. 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 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 predominantly the U.S. dollar. We are exposed to certain risks associated with changes in foreign currency exchange rates in Japanese yen and other foreign currencies.

For example:

- sales of our products to Japanese distributors are denominated in U.S. dollars, Japanese yen and Euros;
- some of our manufacturing costs and operating expenses 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 also hedge a percentage of our forecasted revenue denominated in Japanese yen with foreign currency forward contracts. The objective of these contracts is to mitigate the 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.

To provide an assessment of the foreign currency exchange risk associated with our foreign currency exposures within our operations, we performed a sensitivity analysis to determine the impact that an adverse change in exchange rates would have on our financial statements. If the U.S. dollar weakened by 10%, our operating margin could be unfavorably impacted by approximately 2%. We expect our hedges of foreign currency exposures to be highly effective and offset a significant portion of the short-term impact of changes in exchange rates on the hedged portion of our exposures. Please see Note 11 of the Notes to Condensed Consolidated Financial Statements for details on the hedge contracts.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Based on the evaluation of our disclosure controls and procedures required by Rules 13a-15(b) or 15d-15(b) under the Exchange Act, our Chief Executive Officer and our Chief Financial Officer have concluded that, due to a material

weakness in internal control over financial reporting described in Part II, Item 9A of our 2017 Annual Report on Form 10-K, our disclosure controls and procedures were not effective as of September 30, 2018.

Changes in Internal Controls

There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the third quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as described below under the caption "Remediation Plan."

Remediation Plan

We are committed to remediating the material weakness by implementing changes to our internal control over financial reporting. We implemented, and will continue to implement, changes and improvements in 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 expanding control activities to adequately reconcile and validate assumptions in the models used to determine non-cash stock-based compensation expense;

- Effective January 1, 2018, management has changed the parameters of the ESPP, which is expected to reduce the number of inputs required to estimate the fair value of ESPP participation rights;

- 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.

Management is committed to a strong internal control environment and believes that, when fully implemented and tested, the measures described above will remediate the material weakness in our internal control over financial reporting. We will continue to assess the effectiveness of our remediation efforts in connection with our future assessments of the effectiveness of internal control over financial reporting.

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect the remediation of this material weakness to be completed prior to the end of fiscal 2018.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties discussed in Part I, Item 1A (Risk Factors) of our Annual Report, any of which could materially affect our business, financial condition, and/or future results. Part I, Item 1A of our Annual Report is incorporated herein by reference. The risk factors in our Annual Report are not repeated in this Quarterly Report, unless the underlying risks have materially changed. The risks described in our Annual Report and this Quarterly Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial could materially and adversely affect our business, financial condition and/or future results.

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, including 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 with 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 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; and
- inadequate levels of compliance with applicable anti-bribery laws, including the Foreign Corrupt Practices Act.

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 have been escalating 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) and with an additional U.S. tariff rate increase scheduled to take effect in January 2019. 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 will rise to 25% in January 2019. For the third quarter of 2018 (when the tariffs were imposed late in the quarter) an immaterial amount of our revenue arose from products subject to such tariffs. Assuming these tariffs remain in effect, we currently project that products subject to the tariffs will generate

approximately 2% 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 assemble into 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 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, which includes assembly and testing of, our products. In addition, in March 2017, we divested a manufacturing facility located in Minnesota, which reduced our internal manufacturing capacity though we continue to outsource manufacturing services from this facility.

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. 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 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 73% of our revenue in fiscal year 2017. 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. 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), has 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 dispose of certain businesses, product lines or assets, which could adversely affect our results of operations and liquidity.

From time to time, we may divest certain businesses, product lines or assets, acquired or otherwise, that are no longer strategically important, or we may exit minority investments, which could materially affect our cash flows and results of operations. If we decide to divest a 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below summarizes information with respect to repurchases of common stock made in the third quarter of fiscal 2018 under the \$450 million stock buyback program, which was announced on October 20, 2015.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the publicly announced programs	Maximum dollar value of shares that may yet be purchased under this program (In thousands)
Remaining balance available for purchases at the beginning of the quarter				200,845
Repurchase during Q3 2018				
August 2018	504,700	16.68	504,700	8,419
September 2018	93,029	16.98	93,029	1,580
Total repurchases during Q3 2018	597,729	16.73	597,729	190,846

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	File No.	
3.1	<u>Certificate of Amendment to Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation, executed March 23, 2017 (including the Second Restated Certificate of Incorporation, executed June 12, 2000)</u>	10-Q	5/2/2017	001-10079	
3.2	<u>Amended & Restated Bylaws of Cypress Semiconductor Corporation</u>	8-K	09/25/2017	001-10079	
10.1	<u>Amendment No. 8 to Amended and Restated Credit and Guaranty Agreement, dated as of September 13, 2018, by and among Cypress Semiconductor Corporation, the guarantors party thereto, the lenders party thereto, and Morgan Stanley Senior Funding, Inc., as administrative agent.</u>	8-K	09/17/2018	001-10079	
31.1	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>				X
31.2	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>				X
32.1+	<u>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.</u>				X
32.2+	<u>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.</u>				X
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

Exhibits 32.1 and 32.2 are being 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.

SIGNATURES

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

CYPRESS SEMICONDUCTOR CORPORATION

Date: October 26, 2018 By: /s/ THAD TRENT

Thad Trent

Executive Vice President, Finance and Administration
and Chief Financial Officer