Title: DISTRIBUTOR STOCK ROTATION PROCEDURE

1. PURPOSE/SCOPE

1.1 Purpose

Describe the Distributor Stock Rotation Procedure in accordance with Procedure 43-00001: General Distributor Policies & Procedures, Distributor Agreement, Section C.2.

1.2 Scope

Process provides measures for awarding inventory rotation privileges to Cypress Semiconductor Global Distributors that are processed within the Cypress on-line WebRMA system.

2. RESPONSIBILITIES

2.1 Defining the process: Global Distribution Operations Manager

2.2 Performing the process: U.S. Distributors, Distribution Asset Managers, Sales Finance and Shipping/Receiving.

2.3 Record keeping: Distribution Asset Managers to maintain rotation $ award records, WebRMA to maintain approved return parts list, Finance to maintain credit records.

3. REFERENCED DOCUMENTS

3.1 22-00006 - Returned Material Authorization (RMA) Procedure.

3.2 43-00009 - Obsolete Products Procedure - Distribution

3.3 90-00022 - Quality Records Element


4. MATERIALS: N/A

5. EQUIPMENT: N/A
6. SAFETY: N/A

7. CRITICAL REQUIREMENTS SUMMARY

7.1 Policy

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7.1.1 The value of the Distributor Stock Rotation shall not exceed 5% (five percent) of the prior 90 days’ net billings unless other negotiated terms are agreed upon with the Vice President of Distribution. Net billings are defined as gross billings minus all credits. The entire award must be used or forfeited within the specified time period; no accrual is permitted.

7.1.2 Each Distributor will be permitted to rotate slow-moving inventory every 90 days. Cypress’ Distribution Asset Manager maintains the calendar for distributor notification; each distributor has a 90-day cycle that is specific to their contract.

7.1.3 All Stock Rotation Requests must be received by the Cypress Semiconductor Distribution Asset Manager not more than thirty (30) days after notification of the dollar amounts available for the Stock Rotation period. Requests for Stock Rotations not received within the allowed timeframe are subject to denial and loss of that quarter’s allowance. Dollars lost due to delinquent requests are not recoverable.

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7.1.4 All items on the stock rotation list are to be entered onto the WebRMA system, Cypress’ on-line return material authorization application. Distributors have been supplied with User ID and Passwords for this application.

7.1.5 Items eligible for return are devices listed in the current Cypress Semiconductor Distributor Cost Book, which were purchased at book cost, and have not been credited to less than book cost. Products must also have an assigned Asset Code that is price-protected. Credit will be allowed based on the price in effect on the day the Stock Rotation request is received by Cypress Semiconductor, or the purchase price less prior credits, and other allowances.

7.1.5.1 Cypress may disallow devices that might otherwise qualify if the Distributor has the same device on open backlog, or they are considered top moving devices (Asset Code A, B or N) or devices are in broken reels or tubes.
7.1.6 No customer special devices (CGxxxx or CSxxxx), used product, damaged product, or product with Asset Codes ‘D’ or ‘O’ may be returned under this policy.

7.1.7 Cypress Semiconductor will use the first-in, first-out method in verifying inventory costs as stated in the current Distributor Cost Book.

7.1.8 Distributor may be requested to supply to Cypress Semiconductor any pertinent data required to resolve quantity and/or cost discrepancies.

7.1.9 Cypress Semiconductor has the right to review/audit previously closed Stock Rotations when warranted.

7.1.10 Product and/or returns not properly packed per ESD guidelines will be returned to the distributor, credit disallowed and are subject to a fifteen (15) percent handling charge.

7.1.10.1 The Cypress Semiconductor RMA authorization number and the distributor Debit Memo packing list must accompany the return. The distributor Debit Memo packing list must list each device actually being returned.

7.1.10.2 The Distributor debit memo must be sent to Cypress Semiconductor accounts receivable. It must list each device, quantity per device, price per device, total dollar value of the Stock Rotation claim. It must reference the RMA authorization number.

7.1.10.3 Unauthorized returns are subject to a fifteen (15) percent of cost handling charge and will be returned to the distributor.

8. OPERATING PROCEDURES AND RESPONSIBILITIES:

8.1 Cypress Semiconductor Distribution Asset Manager will formally notify the distributor via E-Mail of their Stock Rotation allowance, providing the distributor with thirty (30) days to enter their stock rotation request on WebRMA. Approval/Denial will be provided by the Asset Manager via the WebRMA system.

8.1.1 The Distribution Asset Manager will review the Stock Rotation request to ensure that the slowest-moving inventory is returned first and that Top Moving device types (Asset Codes A, B, N) are retained by the distributor at a level that supports typical runrates for that distributor’s customer base.
8.2 The Cypress Semiconductor Asset Manager will review the Stock Rotation request to ensure compliance with all procedural requirements.

8.2.1 The WebRMA system will provide the RMA number and Stock Rotation approval to the distributor. The distributor may now return the products authorized for rotation along with the completed RMA forms prepaid to one of the addresses below.

North American Distributors:

Cypress Semiconductor  
North First Street  
San Jose, CA 95134-1599  
ATTENTION: Return Material

European and Asia Pacific Distributors:

Cypress Semiconductor  
Attn: AOM  
Gateway Business Part – SPEZA  
Gen. Trias, Cavite  
Philippines

8.2.2 Distributor sends debit memo, referencing the RMA number to Cypress Semiconductor Accounts Receivable.

8.2.3 Incoming inspection receives the product into the system, verifying the device type and quantity against the paperwork. Discrepancies are brought to the attention of the Distribution Asset Manager for approval when necessary.

8.2.4 Incoming inspection delivers the final paperwork to the Marketing Business Services group who places a negative booking on the system using the DSR channel and applying a sales order number. The RMA number will be used as the purchase order number.

8.2.5 Cypress Semiconductor sales finance will credit the distributor's account.

9. QUALITY REQUIREMENTS: N/A

10. RECORDS
10.1 Storage location and retention period for records are specified in procedure 90-00022, Quality Records Element.

10.2 The Distribution Asset Managers maintain records detailing the monthly net factory shipments that dictate the rotation award dollars by distributor. The stock rotation request from the distributor is maintained within the Cypress on-line WebRMA program. Finance retains records relating to the actual credit to the distributor account once product is received from the distributor.

11. PREVENTIVE MAINTENANCE: N/A

12. POSTING SHEETS/FORMS/APPENDIX

12.1 The Cypress on-line WebRMA system acts as the posting form for the actual list of products being rotated by the distributor.
Appendix 1

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## Document History Page

**Document Title:** DISTRIBUTOR STOCK ROTATION PROCEDURE  
**Document Number:** 43-00004

<table>
<thead>
<tr>
<th>Rev. No.</th>
<th>ECN No.</th>
<th>Issue Date</th>
<th>Orig. of Change</th>
<th>Description of Change</th>
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<td>TDT</td>
<td>NEW RELEASE</td>
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<td>10/17/94</td>
<td>JQA</td>
<td>UPDATE FOR ISO9000</td>
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<td>9/24/96</td>
<td>DCon</td>
<td>Automated conversion from WordPerfect to Word for Windows 6.0c</td>
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<td>03/28/97</td>
<td>JS</td>
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<tr>
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<td>50805</td>
<td>07/09/97</td>
<td>JS</td>
<td>Overall cleanup of spec to match current practices, includes asset management changes.</td>
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<td>F</td>
<td>55443</td>
<td>07/01/98</td>
<td>JS</td>
<td>Re-Titled Procedure from 'Distributor Inventory Adjustment' to 'Distributor Stock Rotation' Procedure. Updated nomenclature references impacted by the title change. Updated job titles and responsibilities of function in Sections 1.0, 2.0, and 9.0.</td>
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<tr>
<td>G</td>
<td>121378</td>
<td>02/14/03</td>
<td>JS</td>
<td>Changed titles and responsibilities. Added WebRMA process and hyperlink to WebRMA User Manual. Added Philippines shipping address for returns. Changed record keeping information in 2.3 and 10.2. Changed Section 12 to reflect the on-line posting format now in use. Deleted Distributor Inventory Adjustment Form that is no longer used.</td>
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**Distribution:** E-CUST-SERV, E-FIELD  
**Posting:** None