

CYRIX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands)	December 31,	
	1996	1995
Current assets:		
Cash and cash equivalents	\$ 65,712	\$ 44,334
Investments	22,035	-
Trade accounts receivable, net of valuation allowances of \$4,236 at December 31, 1996 and \$4,500 at December 31, 1995 (Note 1)	27,791	44,727
Inventories (Note 1)	24,432	12,273
Deferred taxes (Note 3)	4,783	10,845
Prepayment for product purchases	20,471	13,333
Income taxes receivable	21,033	3,089
Other	1,184	377
Total current assets	187,441	128,978
Property and equipment (Note 1):		
Land	4,964	4,964
Buildings and improvements	11,154	5,634
Machinery and equipment	132,359	125,050
	148,477	135,648
Accumulated depreciation	62,892	37,341
	85,585	98,307
Prepayment for product purchases, less current portion	22,465	40,698
Other assets	3,851	802
Total assets	\$299,342	\$268,785

See accompanying notes.

CYRIX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(In thousands)	December 31,	
	1996	1995
Current liabilities:		
Accounts payable	\$ 17,504	\$ 15,239
Accrued salaries and benefits	5,454	3,469
Deferred income and distributor reserves (Note 1)	2,610	15,526
Income taxes payable (Note 3)	377	536
Current maturities of long-term debt and capitalized lease obligations (Note 2)	3,075	20,053
Other accrued expenses	8,034	5,497
Total current liabilities	37,054	60,320
Long-term debt and capitalized lease obligations (Note 2)	136,156	62,325
Deferred income taxes (Note 3)	3,206	147
Commitments and contingencies (Notes 2 and 5)		
Stockholders' equity (Note 4):		
Common stock, \$.004 par value; authorized 60,000 shares, issued 20,228 shares at December 31, 1996 and December 31, 1995	81	81
Additional capital	49,040	46,256
Retained earnings	73,850	99,712
Less treasury stock, at cost, 717 shares at December 31, 1996 and 991 shares at December 31, 1995	(45)	(56)
Total stockholders' equity	122,926	145,993
Total liabilities and stockholders' equity	\$299,342	\$268,785

See accompanying notes.

CYRIX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Fiscal Year Ended December 31,		
	1996	1995	1994
Net product sales	\$177,101	\$210,294	\$246,098
Royalty revenue (Note 1)	6,724	17,718	-
Net revenues	183,825	228,012	246,098
Cost of sales	131,453	142,063	120,721
	52,372	85,949	125,377
Expenses:			
Marketing, general and administrative	53,102	39,099	44,858
Research and development	32,371	29,115	24,755
	85,473	68,214	69,613
Income (loss) from operations	(33,101)	17,735	55,764
Other income and expense:			
Income from litigation settlement	2,000	10,000	500
Interest income	2,113	2,752	1,855
Interest expense	(9,511)	(6,711)	(721)
	(5,398)	6,041	1,634
Income (loss) before provision for income taxes and extraordinary item	(38,499)	23,776	57,398
Provision (benefit) for income taxes (Note 3)	(13,699)	8,164	19,821
Net income (loss) before extraordinary item	(24,800)	15,612	37,577
Extraordinary loss from early extinguishment of debt, net of income tax benefit of \$598	(1,062)	-	-
Net income (loss)	\$ (25,862)	\$ 15,612	\$ 37,577
Net income (loss) per common and common equivalent share:			
Net income (loss) before extraordinary item	\$ (1.27)	\$.78	\$ 1.88
Extraordinary item	(0.06)	-	-
Net income (loss) per common and common equivalent share	\$ (1.33)	\$.78	\$ 1.88
Weighted average common and common equivalent shares outstanding	19,408	19,985	19,986

See accompanying notes.

CYRIX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Fiscal Year Ended December 31,		
	1996	1995	1994
Operating Activities			
Net income (loss)	\$(25,862)	\$15,612	\$37,577
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	27,094	19,417	9,045
Provision for doubtful accounts and OEM customer returns	16,089	9,362	8,999
Deferred income taxes and other noncash charges	9,121	(3,447)	(3,130)
Changes in operating assets and liabilities:			
Receivables	847	(12,094)	(22,699)
Inventories	(12,159)	6,203	(8,315)
Income taxes receivable	(17,944)	(3,089)	-
Other current assets	(807)	(3,229)	1,198
Accounts payable	2,265	(11,941)	14,271
Deferred litigation settlement	-	(5,000)	5,000
Accrued expenses	4,522	454	1,880
Income taxes payable	(159)	(2,108)	1,532
Deferred income and distributor reserves	(12,916)	11,253	2,039
Other assets	(3,049)	3,173	(549)
Net cash provided (used) by operating activities	(12,958)	24,566	46,848
Investing Activities			
Prepayment for product purchases	(10,000)	(32,367)	(30,000)
Reduction in prepayment for product purchases	21,095	8,336	-
Purchases of property and equipment	(12,634)	(79,677)	(23,986)
Purchases of investments	(22,035)	-	(32,234)
Proceeds from redemption of investments	-	16,178	30,147
Net cash used in investing activities	(23,574)	(87,530)	(56,073)
Financing Activities			
Proceeds from issuance of 5.5% convertible subordinated notes	126,500	-	-
Proceeds from issuance of long-term debt	6,941	72,553	13,876
Repayments of long-term debt and capitalized lease obligations	(78,326)	(12,972)	(1,751)
Proceeds from issuance of treasury stock	2,308	2,964	2,321
Tax benefit from stock options exercised and disqualifying dispositions	487	1,691	1,854
Repurchases of stock	-	(2)	(10)
Net cash provided by financing activities	57,910	64,234	16,290
Net increase in cash and cash equivalents	21,378	1,270	7,065
Cash and cash equivalents at beginning of fiscal year	44,334	43,064	35,999
Cash and cash equivalents at end of fiscal year	\$ 65,712	\$44,334	\$43,064
Financing and Investing Activities Not Affecting Cash			
Capital lease obligations incurred	\$ 1,739	\$ -	\$ 2,817

See accompanying notes.

CYRIX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share data)	Common Stock		Additional Capital	Treasury Stock		Retained Earnings	Total
	Shares	Amount		Shares	Amount		
Balance at December 31, 1993	19,378,870	\$78	\$37,435	1,032,789	\$(50)	\$46,523	\$ 83,986
Issuance of common stock on exercise of stock options	474,434	2	2,319	-	-	-	2,321
Common stock repurchases	-	-	-	62,833	(10)	-	(10)
Tax benefit of stock options exercised and disqualifying dispositions	-	-	1,854	-	-	-	1,854
Net income	-	-	-	-	-	37,577	37,577
Balance at December 31, 1994	19,853,304	80	41,608	1,095,622	(60)	84,100	125,728
Issuance of common stock and treasury stock on exercise of stock options	374,574	1	2,957	(154,128)	6	-	2,964
Common stock repurchases	-	-	-	49,168	(2)	-	(2)
Tax benefit of stock options exercised and disqualifying dispositions	-	-	1,691	-	-	-	1,691
Net income	-	-	-	-	-	15,612	15,612
Balance at December 31, 1995	20,227,878	81	46,256	990,662	(56)	99,712	145,993
Issuance of treasury stock on exercise of stock options	-	-	2,297	(273,384)	11	-	2,308
Tax benefit of stock options exercised and disqualifying dispositions	-	-	487	-	-	-	487
Net loss	-	-	-	-	-	(25,862)	(25,862)
Balance at December 31, 1996	20,227,878	\$81	\$49,040	717,278	\$(45)	\$73,850	\$122,926

See accompanying notes.

CYRIX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE BUSINESS

Cyrix Corporation ("the Company") is engaged principally in the design, development and marketing of high-performance advanced processors for IBM compatible personal computers which it sells principally through its direct sales force, independent representatives and distributors. Manufacturing of products is performed primarily through third parties.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

FISCAL YEAR

The Company's fiscal year ends on a Sunday on or about December 31. Fiscal year 1996, a 52-week year, ended December 29, 1996. Fiscal years 1995 and 1994 ended December 31, 1995, and January 1, 1995, respectively. The accompanying financial statements have been labeled as though the Company's accounting periods ended on the respective calendar year-end.

RECLASSIFICATIONS

Certain reclassifications of the financial statements for prior years have been made to conform to the 1996 presentation.

INVESTMENTS

Investments are carried at cost, which approximates market. The Company invests primarily in bankers' acceptances, commercial paper, municipal bond funds, government agency securities, corporate obligations and money market funds. All investments are classified as available-for-sale and no realized or unrealized gains or losses have been incurred with respect to such investments due to their nature. The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of standard cost, which approximates actual cost, determined on a first-in, first-out basis, or market. Inventories are stated net of lower of cost or market allowances of \$5.3 million and \$14.7 million as of December 31, 1996 and 1995, respectively. Inventories consist of the following at December 31:

(In thousands)	1996	1995
Raw materials	\$ 9,576	\$ 1,330
Work-in-process	14,204	6,482
Finished goods	652	4,461
	<u>\$24,432</u>	<u>\$12,273</u>

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Provisions for depreciation are calculated using the straight-line method over the estimated useful lives of the related assets or the term of the lease, if shorter, for assets recognized pursuant to capitalized leases.

REVENUE RECOGNITION

Sales are recognized upon shipment to distributors and to original equipment manufacturer (“OEM”) customers. Sales and receivables are reduced for estimated uncollectible accounts, estimated returns from OEM customers and estimated future price allowances to be granted to OEM customers. Sales to distributors are made under distributor agreements which provide the distributors rights of return and price protection on unsold merchandise held by the distributors. Accordingly, sales are reduced for estimated returns from distributors and estimated future price reductions of unsold merchandise held by distributors. Provisions for warranty are made at the time of sale.

ROYALTY REVENUE

Royalty revenue based on the sale by third-party licensees of licensed products is recognized by the Company upon fulfillment of its contractual obligations and determination of a royalty amount based on units sold. Royalty revenue of \$6.7 million was recognized in fiscal 1996. Total royalty revenue for fiscal 1995 of \$17.7 million included a \$15 million payment received in settlement of a contractual dispute with Texas Instruments Incorporated (“TI”). The \$15 million payment was for past royalties and a fully paid-up license on the Company’s 486DLC and 486SLC microprocessors. No royalty revenue was recognized in 1994.

VALUATION ALLOWANCES

Valuation allowances related to net product sales consist of the following at December 31:

(In thousands)	1996	1995
Allowance for uncollectible accounts	\$1,661	\$ 1,155
Allowance for returns from and price allowances to be granted to OEM customers	2,575	3,345
Valuation reserves related to net receivables	4,236	4,500
Deferred income and estimated gross profits related to returns from and price allowances to be granted to distributors	2,610	15,526
	<u>\$6,846</u>	<u>\$20,026</u>

Management estimates the allowance for uncollectible accounts receivable. The Company performs ongoing credit evaluations of its customers and requires advanced payments or secures transactions when deemed necessary. The Company also requires many of its international customers to provide letters of credit and purchases credit insurance for the majority of its international sales in an effort to limit the amount of credit risk associated with the Company’s accounts receivable. Therefore, the Company’s credit losses have been within management’s estimates.

ACCOUNTING FOR STOCK OPTIONS

The Company grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, because the alternative fair value accounting method provided for under FASB Statement No. 123, “Accounting for Stock-based Compensation,” requires the use of valuation models that were not developed for use in valuing employee stock options. Accordingly, the Company does not recognize compensation expense for stock option grants.

NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE

Net income (loss) per common and common equivalent share were computed by dividing net income (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock options are considered common stock equivalents. The dilutive effects of common stock equivalents are calculated using the treasury stock method. Fully diluted net income per share, for applicable years, is substantially the same as primary net income per share.

ESTIMATES

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

NOTE 2. LONG-TERM OBLIGATIONS

Long-term debt and capitalized lease obligations consist of the following at December 31:

(In thousands)	1996	1995
5.5% convertible subordinated notes due June 1, 2001 requiring interest payments semiannually on June 1 and December 1. The notes are convertible into shares of the Company's common stock at the conversion rate of 25.1572 shares per \$1,000 principal amount of the notes (equivalent to a conversion price of \$39.75 per share)	\$126,500	\$ -
Note payable, 8.875%, due in monthly installments of \$45,686 including interest through September 1, 2006, with remaining principal and interest payable on October 1, 2006, collateralized by land and buildings located in Richardson, Texas	5,485	-
Notes payable with interest rates ranging from 8.69% to 11.1% due in installments through 2002 and collateralized by substantially all the assets of the Company	-	75,482
Note payable, 7.125%, due in quarterly installments of \$106,000 including interest through October 31, 1998, with remaining principal and interest due upon maturity date of November 5, 1998, collateralized by land located in Richardson, Texas and any improvements made thereto	2,301	2,550
Note payable, 8.3%, due in equal monthly installments of \$45,356 including interest through June 1, 1999, collateralized by specific equipment	1,225	-
Note payable, 6.57%, due in 48 equal monthly installments of \$56,745 including interest through April 1, 1998, collateralized by specific equipment	815	1,420
Note payable, 11.5%, due in 36 equal monthly installments of \$25,589 including interest through December 31, 1997, collateralized by specific equipment	289	546
Total debt	136,615	79,998
Capitalized lease obligations	2,616	2,380
Total long-term debt and capitalized lease obligations	139,231	82,378
Less current portion	3,075	20,053
	\$136,156	\$62,325

In May 1996, the Company issued \$126.5 million of 5.5% convertible subordinated notes ("notes") due June 1, 2001. The notes are convertible into shares of the Company's common stock at the conversion rate of 25.1572 shares per \$1,000 principal amount of notes (equivalent to a conversion price of \$39.75 per share). The notes are subordinated to present and future senior indebtedness of the Company, and the notes are redeemable at the option of the Company, in whole or in part, on or after June 1, 1999. The Company used approximately \$66.6 million of the net proceeds of the offering to repay outstanding notes payable.

The Company has certain land, buildings and equipment under financing agreements which contain restrictive covenants including restriction on additional debt and certain other transactions and which include the maintenance of certain net worth, net income per quarter, working capital and other financial ratios.

For each of the next five years and beyond, long-term debt and capital lease obligations are payable as follows:

(In thousands)	Long-Term Debt (Principal Only)	Capital Leases
1997	\$ 1,267	\$2,081
1998	2,272	1,547
1999	76	594
2000	83	-
2001	126,591	-
Thereafter	5,101	-
Total	135,390	4,222
Less amount representing interest	-	381
Total present value	<u>\$135,390</u>	<u>\$3,841</u>

Interest paid by the Company related to its notes payable during 1996, 1995 and 1994 amounted to \$8.6 million, \$6.2 million and \$554 thousand, respectively. Of the total payments under capital leases in fiscal 1996, 1995 and 1994, \$353 thousand, \$244 thousand and \$230 thousand, respectively, represented interest.

The Company leases office space and equipment under operating leases. Total rent expense for the fiscal years ended December 31, 1996, 1995, and 1994, was \$3.8 million, \$2.0 million and \$1.2 million, respectively. Minimum rental commitments under noncancellable operating leases are as follows:

(In thousands) Year	Operating Leases
1997	\$4,188
1998	2,826
1999	1,040
2000	101
2001	81
Thereafter	1,221
	<u>\$9,457</u>

NOTE 3. INCOME TAXES**PROVISION (BENEFIT) FOR INCOME TAXES**

The provision for income tax expense (benefit) consists of the following:

(In thousands)	1996	1995	1994
Federal:			
Current	\$ (23,484)	\$ 11,095	\$ 21,025
Deferred - current	6,062	(5,443)	(2,516)
Deferred - noncurrent	3,060	1,849	(639)
	(14,362)	7,501	17,870
State	-	404	1,385
Foreign	65	259	566
Total provision (benefit) for income taxes	\$ (14,297)	\$ 8,164	\$ 19,821

Included in the tax provisions reflected above are \$0.5 million, \$1.7 million and \$1.9 million for 1996, 1995, and 1994, respectively, of tax benefits related to stock options exercised and disqualifying dispositions recorded as credits to stockholders' equity.

The provision (benefit) for income taxes reconciles to the amount computed by applying the statutory U.S. federal rate of 35% to income before provision for income taxes as follows:

(In thousands)	1996	1995	1994
Federal income tax at statutory rate	\$ (14,056)	\$ 8,321	\$ 20,089
Effect of foreign subsidiary transactions	442	(372)	(588)
State taxes, net of federal benefit	-	263	900
Research and development credits	(683)	(542)	(1,117)
Other, net	-	494	537
Provision (benefit) for income taxes	\$ (14,297)	\$ 8,164	\$ 19,821

No federal income tax provision has been made for income taxes on approximately \$1.3 million of cumulative undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings. If such earnings were distributed, it is expected that no additional taxes would be due after giving effect to available tax credits.

The Company made income tax payments of \$0.5 million in 1996, \$15.1 million in 1995, and \$19.6 million in 1994.

ANALYSIS OF DEFERRED TAX ASSETS (LIABILITIES)

Significant components of the Company's deferred tax assets (liabilities) consist of the following at December 31:

(In thousands)	1996	1995
Deferred tax assets - current:		
Allowance for doubtful accounts	\$ 500	\$ 404
Other receivable allowances	1,024	1,354
Inventory valuation	1,801	3,739
Deferred income and distributor reserves	759	4,843
Other current, net	699	505
	4,783	10,845
Deferred tax liability - noncurrent:		
Depreciation	(3,349)	(474)
Other noncurrent, net	143	327
	(3,206)	(147)
Net deferred tax assets	\$1,577	\$10,698

At December 31, 1996 and December 31, 1995 no valuation allowance was recorded to offset deferred tax assets.

It is management's expectation that the deferred tax assets will be recoverable through the generation of future taxable income from ordinary and recurring operations. However, if future taxable income is not generated, the majority of the deferred tax assets would be recoverable by a carryback refund of taxes paid in the current or prior years. It is more likely than not that the remainder of the deferred tax assets will be realized.

NOTE 4. STOCKHOLDERS' EQUITY

Stock option transactions for the Company's 1988 Incentive Stock Plan and the Company's Non-Employee Directors Stock Plan during fiscal years 1994, 1995 and 1996 were as follows:

	Number of Shares	Weighted Average Exercise Price	Option Price Range Per Share
Options outstanding at December 31, 1993	1,794,374		\$ 0.16 - \$ 35.750
Granted	780,800		\$ 20.00 - \$ 45.250
Terminated	202,730		\$ 0.16 - \$ 35.750
Exercised	435,531		\$ 0.16 - \$ 27.750
Options outstanding at December 31, 1994	1,936,913	\$12.57	\$ 0.16 - \$ 45.250
Granted	1,070,125	\$28.53	\$ 20.75 - \$ 39.500
Terminated	489,730	\$28.23	\$ 2.37 - \$ 44.875
Exercised	435,875	\$ 4.52	\$ 0.64 - \$ 31.000
Options outstanding at December 31, 1995	2,081,433	\$18.78	\$ 0.16 - \$ 45.250
Granted	1,577,600	\$19.05	\$ 13.00 - \$ 28.375
Terminated	602,226	\$22.77	\$ 2.32 - \$ 45.250
Exercised	190,800	\$ 5.25	\$ 0.64 - \$ 27.750
Options outstanding at December 31, 1996	2,866,007	\$18.99	\$ 0.16 - \$ 45.250

Price ranges of outstanding and exercisable options as of December 31, 1996 were as follows:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number of Options	Weighted Average Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 0.16 - \$14.19	676,197	6 yrs	\$ 6.64	415,702	\$ 3.10
\$17.25 - \$30.00	2,006,910	9 yrs	\$21.36	681,221	\$22.11
\$31.00 - \$44.88	182,900	8 yrs	\$38.61	69,995	\$38.30
\$ 0.16 - \$44.88	2,866,007	8 yrs	\$18.99	1,166,918	\$16.31

1988 INCENTIVE STOCK PLAN

The Company's 1988 Incentive Stock Plan, as amended ("the Plan"), provides for reservation, restriction, and issuance of up to 7,218,334 shares of common stock to employees, officers, directors, and consultants of the Company. The Plan provides for issuance of common stock upon the exercise of stock options and stock purchase rights, which may be granted under the Plan with exercise prices not less than the fair market value of the common stock on the date of grant. The proceeds received by the Company upon the exercise of stock options and stock purchase rights increase the Company's cash and equity balances. Shares issued are subject to a repurchase option in favor of the Company of unvested shares upon discontinued employment. Shares issued generally vest over and are fully vested four years from the date of grant. At December 31, 1996, there were 1,170,613 shares available for future grants.

NON-EMPLOYEE DIRECTORS STOCK PLAN

On April 27, 1995 the stockholders approved the Non-Discretionary Non-Employee Directors Stock Plan ("the Non-Employee Directors Stock Plan"), which provides for the issuance of up to 200,000 shares of common stock to non-employee directors of the Company. The plan provides for issuance of common stock upon the exercise of stock options, which are granted with an exercise price equal to the fair market value of the common stock on the date of grant and vest over 4 years. The number of options granted to a non-employee director under the plan in any year is dependent on his attendance of board and board committee meetings during the prior year, with the maximum shares subject to options granted in any one year to any one director being 10,000. At December 31, 1996, there were 158,750 shares available for future grant.

EMPLOYEE STOCK PURCHASE PLAN

An Employee Stock Purchase Plan ("the Employee Stock Purchase Plan"), as amended, provides for reservation and issuance of up to 500,000 shares of the Company's common stock. Eligible employees may purchase common stock through payroll deductions, which may not exceed 10% of an employee's base salary. The purchase price is the lesser of 85% of the fair market value at the commencement of the purchase period or 85% of the fair market value on the last day of the purchase period. Each purchase period is six months. During fiscal 1996, 1995 and 1994, 71,584, 54,867 and 39,903 shares of stock, respectively, were issued to employees under the Employee Stock Purchase Plan for an aggregate purchase price of \$1,198 thousand, \$915 thousand and \$687 thousand. No shares were issued under the Employee Stock Purchase Plan prior to fiscal 1994.

FAIR VALUE OF STOCK OPTIONS

Pro forma information regarding net income and earnings per share is required by FASB Statement No. 123, "Accounting for Stock-based Compensation," and has been determined as if the Company had accounted for its employee stock options using the fair value method of that Statement. The fair value for each of the Company's options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1996 and 1995: a risk-free interest rate ranging from 5.8% to 6.4% for 1996 and 5.6% to 6.7% for 1995 based on a six-month weighted average of interest rates available on zero-coupon United States Government issued securities with terms equal to the expected life of the options; dividend yields of zero; volatility factors of the expected market price of the Company's common stock of .70; and a weighted average expected life of the options of 1.2 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. Additionally, because options vest over several years and additional option grants are expected, the effects of the valuation models are not likely to be representative of similar future calculations.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

	1996	1995
Pro forma net income (loss)	\$(31,556)	\$13,368
Pro forma net income (loss) per common share	\$ (1.63)	\$ 0.67

The weighted average fair value of options granted in the fiscal years ended December 31, 1996 and 1995 were \$10.92 and \$15.71, respectively.

NOTE 5. CONTINGENCIES

MICROPROCESSOR LITIGATION

Since March 1992, the Company and Intel Corporation ("Intel") have been engaged in litigation related to certain of the Company's microprocessor products. On January 21, 1994, the United States District Court for the Eastern District of Texas, Sherman Division ruled in favor of the Company with respect to microprocessor products which were made and sold to the Company by certain Intel licensees, SGS-Thomson Microelectronics, Inc. ("SGS") and TI. Intel appealed the ruling on April 8, 1994. On December 8, 1994, the Court of Appeals for the Federal Circuit affirmed the district court's January 21, 1994 ruling. On December 23, 1994, Intel filed a petition for reconsideration of that decision and a motion for rehearing *en banc* with the Court of Appeals. In February 1995, the Court of Appeals for the Federal Circuit denied Intel's motion for a rehearing *en banc*.

On January 24, 1994, the United States District Court for the Eastern District of Texas, Sherman Division began to try the Company's allegations that Intel violated certain antitrust statutes and misused its patents and Intel's allegations that the Company infringed certain Intel patents. Effective January 31, 1994, the Company and Intel entered into a settlement agreement which provides for the dismissal of the claims which were to be litigated in the January 24, 1994 trial. Pursuant to the settlement agreement, Intel granted the Company a fully paid-up, irrevocable license under claims 2 and 6 of Intel's United States patent 4,972,338 ("the Crawford patent") and certain other system patents for products sold after January 31, 1994. Intel also acknowledged that products purchased by the Company from certain licensees exhaust Intel device claims including claim 1 of the Crawford patent. Further, Intel paid \$5 million to the Company. The Company and Intel agreed that if the January 21, 1994 ruling, insofar as it relates to SGS, was reversed after final adjudication or was remanded for additional findings and subsequently reversed so that Cyrix did not have a right to use claims 2 and 6 of the Crawford patent based on the SGS license, Cyrix would return the \$5 million plus interest to Intel. Cyrix deferred recognition as income of the \$5 million settlement payment received in February 1994 until final resolution of this issue. Intel agreed to pay the Company an additional \$5 million if the January 21, 1994 SGS ruling was upheld after final adjudication. As noted previously, in December 1994, the Court of Appeals for the Federal Circuit upheld the district court's January 21, 1994 ruling and later denied Intel's motion for a rehearing *en banc*. The time period during which Intel had the right to appeal the case to the United States Supreme Court expired without such appeal, and the Company received the additional \$5 million settlement payment in the second quarter of 1995. Therefore, the Company recognized settlement income of \$10 million in the second quarter of 1995.

As part of the settlement agreement, the Company and Intel agreed to litigate in the United States District Court for the Eastern District of Texas, Sherman Division, whether products manufactured by SGS affiliates under the "have-made" provision in the SGS-Intel license, sold to SGS, and then sold to the Company fall within the scope of the SGS license. On December 30, 1994, the district court ruled that SGS was licensed by Intel to exercise have-made rights by having third parties (including SGS affiliates) manufacture and sell microprocessors to Cyrix free of claims of patent infringement by Intel. Intel appealed the ruling on March 7, 1995. On March 5, 1996, the Court of Appeals for the Federal Circuit affirmed the district court's December 1994 ruling. On March 18, 1996 Intel filed a petition for a rehearing of that decision with the Court of Appeals. In April 1996, the Court of Appeals denied Intel's petition for a rehearing. The time period during which Intel had the right to appeal the case to the United States Supreme Court expired without such appeal, and the Company received a \$1 million settlement payment on July 30, 1996. Therefore, the Company recognized settlement income of \$1 million in the third quarter of 1996.

Similarly, the Company and Intel agreed to litigate in the United States District Court for the Eastern District of Texas, Sherman Division, whether IBM is licensed under claim 1 of the Crawford patent when manufacturing products that are primarily designed by the Company. On April 5, 1994, the district court granted IBM's motion to intervene, and on December 8, 1994, the district court ruled that IBM was licensed by Intel to act as a semiconductor foundry for Cyrix free of claims of patent infringement by Intel. Intel appealed the ruling on March 7, 1995. On March 5, 1996, the Court of Appeals for the Federal Circuit affirmed the district court's December 1994 ruling. The time period during which Intel had the right to appeal the case to the United States Supreme Court expired without such appeal, and the Company received a \$1 million settlement payment on July 30, 1996. Therefore, the Company recognized settlement income of \$1 million in the third quarter of 1996.

STOCKHOLDERS' CLASS ACTION

In December 1994, eleven class actions were filed in the United States District Court for the Northern District of Texas, purportedly on behalf of purchasers of the Company's common stock, alleging that the Company and various of its officers and directors violated sections of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder,

by issuing false and misleading statements concerning the introduction and production of the Company's Cx486DX2 40/80 MHz microprocessors. The complaints also allege that the conduct of the Company and certain of its officers and directors constituted fraud and negligent misrepresentation and that certain of such officers and directors sold shares of the Company's common stock while in possession of material undisclosed information.

In June 1995, all of the actions were consolidated into one complaint in the federal district court in Dallas, Texas. The Company moved to dismiss the consolidated amended class action complaint in July 1995. On August 20, 1996, the United States District Court for the Northern District of Texas, Dallas Division, entered an order dismissing plaintiffs' complaint for failure to properly plead a cause of action. The court, however, dismissed plaintiffs' complaint "without prejudice," and permitted plaintiffs leave to amend their complaint by September 10, 1996 to cure its deficiencies. No such amendment was filed and on September 26, 1996, the U.S. District Court in Dallas entered a judgment dismissing the securities class action lawsuit against the Company and various of its officers.

GATEWAY TRADEMARK LITIGATION

By letter dated May 17, 1996, Gateway 2000, Inc. ("Gateway") alleged that Cyrix "is infringing valuable trademark and trade dress rights of Gateway 2000" in advertisements promoting Cyrix's 6x86™ personal computer systems. Gateway asserts that Cyrix's "reproduction, copy and colorable imitation of Gateway's registered trademark and trade dress in connection with advertising Cyrix's goods is likely to cause confusion, mistake or deceive the public within the meaning of the Lanham Act." The letter threatens Cyrix with actions for trademark infringement, false advertising and trade disparagement, and unfair competition. Finally, the letter suggests that Gateway might assert its rights in other nations if the advertisements have been distributed on the international market.

On May 24, 1996, Cyrix filed in the United States District Court for the Northern District of Texas, Dallas Division, *Cyrix Corporation v. Gateway 2000, Inc.*, seeking a declaratory judgment: (i) that none of Cyrix's actions or omissions relating to its advertisements of the Cyrix 6x86 computers has violated any provisions of the Lanham Act; (ii) that none of Cyrix's actions or omissions relating to its advertisements of the Cyrix 6x86 computers has violated the common law of the State of Texas or any provisions of the Texas Trademark Act, Texas Business & Commerce Code Sections 16.01 et seq., including but not limited to those provisions relating to trademark infringement, trade dress infringement and dilution; (iii) that Cyrix has not engaged in any false or unlawful advertising; (iv) that Cyrix has not engaged in any unfair competition or trade disparagement; (v) that Cyrix's conduct relating to its advertisements of the Cyrix 6x86 computers is speech protected by the U.S. Constitution and the Texas Constitution of 1876; (vi) that none of Cyrix's actions or omissions relating to its advertisements of the Cyrix 6x86 computers has violated any state or federal laws; (vii) that Cyrix's acts are privileged and/or excused by: (a) the defense of fair use; (b) the defense of opinion and parody; and (c) the defense of truth; and (viii) that Cyrix is free to use images of Holstein cows to signify Gateway (even in an unflattering fashion) in advertising of personal computers that is not factually false, deceptive or misleading.

Subsequently, in late June and early July Gateway filed actions in state court in New York, New Jersey, Connecticut, Massachusetts and California. The state court cases are essentially the same and allege that Cyrix violated anti-dilution laws, deceptive trade practices laws, trademark infringement laws, and unfair competition laws. Cyrix believes that Gateway also made claims under the Federal Trademark Act and certain state law claims pre-empted by the Federal Copyright law. Gateway requested, among other relief, preliminary and permanent injunctions, as well as actual and punitive damages. In each of the five cases, Gateway sought actual damages (typically asserting such amount is at least one million dollars) and punitive damages.

On December 20, 1996, the Company and Gateway agreed to a settlement of all of the claims in the state and federal court actions and the dismissal with prejudice of those actions. The settlement, the terms of which are confidential by agreement between the parties, had no material impact upon the Company's results of operations in the current or future years.

OTHER MATTERS

The Company is a defendant in various other actions which arose in the normal course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the financial condition or overall trends in the results of operations of the Company.

NOTE 6. FOREIGN OPERATIONS

The Company operates in one business segment, advanced processors. Operations outside the United States include both product testing and sales. Sales entities are located in the United Kingdom, Japan, Singapore, Taiwan and Hong Kong. Generally, revenues between geographic areas are based on prevailing market prices or an approximation thereof. Identifiable assets are those associated with geographic area operations, excluding unallocated cash and short-term investments and internal company investments and receivables. A summary of the Company's operations by geographic area is presented below:

(In thousands)	United States	Europe	Asia and Pacific	Intercompany Eliminations	Consolidated
FISCAL YEAR ENDED DECEMBER 31, 1996					
Sales to unaffiliated customers	\$183,825	\$ -	\$ -	\$ -	\$183,825
Inter-area sales to affiliates	24,761	3,782	4,225	(32,768)	-
Income (loss) from operations	(33,160)	96	(37)	-	(33,101)
Identifiable assets	296,779	1,793	770	-	299,342
FISCAL YEAR ENDED DECEMBER 31, 1995					
Sales to unaffiliated customers	\$228,012	\$ -	\$ -	\$ -	\$228,012
Inter-area sales to affiliates	15,160	4,196	7,493	(26,849)	-
Income from operations	15,795	446	955	539	17,735
Identifiable assets	264,378	1,361	3,046	-	268,785
FISCAL YEAR ENDED DECEMBER 31, 1994					
Sales to unaffiliated customers	\$169,420	\$76,678	\$ -	\$ -	\$246,098
Inter-area sales to affiliates	71,208	-	5,873	(77,081)	-
Income from operations	52,799	2,035	758	172	55,764
Identifiable assets	173,770	17,718	5,185	(539)	196,134

Gross export sales to unaffiliated customers in Asia and the Pacific region by domestic operations in fiscal years 1996, 1995 and 1994 were \$39 million, \$100 million and \$53.8 million, respectively. Also, gross export sales to unaffiliated customers in Europe by domestic operations in fiscal years 1996 and 1995 were \$48.6 million and \$44.1 million, respectively.

NOTE 7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents. The carrying amount approximates fair value.

Investments. The carrying amount approximates fair value because of the short maturity and nature of these instruments. The Company places its cash investments only in high credit quality financial instruments and limits the amount invested in any one institution or in any one type of instrument. The Company has not experienced any significant losses on its investments.

Accounts Receivable. The carrying amount, which is net of valuation allowances for credit losses and returns from and price allowances to be granted to certain OEM customers, approximates fair value.

Accounts Payable. The carrying amount approximates fair value because of the short-term nature of these instruments.

Long-Term Debt and Capitalized Lease Obligations, Including Current Maturities. The carrying value of the Company's long-term debt and capitalized lease obligations is \$12.7 million and \$82.4 million at December 31, 1996 and 1995, respectively. The fair value of the outstanding debt and capitalized lease obligations does not differ materially from the carrying values based upon a comparison of the weighted average interest rates of such borrowings compared with the Company's currently available incremental borrowing rate.

5.5% Subordinated Notes Due June 1, 2001. The fair value of the \$126.5 million of subordinated convertible notes is approximately \$89.2 million based upon reported trading activity for January 1, 1997.

NOTE 8. RISKS AND UNCERTAINTIES

Cyrix currently obtains all of the wafers it uses in production of the Company's products from IBM Microelectronics. The purchase agreement with IBM continues through December 1999. Cyrix also has a purchase agreement with SGS-Thomson Microelectronics, Inc. which continues through December 1997. However, Cyrix did not purchase wafers under the SGS agreement during 1996. Due to the complex processes involved in fabrication of the wafers, it is possible that the Company would have difficulty in locating other supply sources capable of fabricating its wafers if it could no longer purchase its wafers from IBM. Any loss of wafer capacity or delay in obtaining an alternative source of wafers due to such problems would have a severe impact on the Company's results of operations.

From time to time, Cyrix has been notified that it may infringe intellectual property rights of others. If any such claims are asserted against the Company, the Company may seek to obtain a license under the third-party's intellectual property rights. The Company could decide, however, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time consuming and could materially adversely affect the Company's business, financial condition and results of operations. No assurance can be given that all necessary licenses can be obtained on reasonable terms nor that litigation can be avoided. The Company's inability to obtain licenses on favorable terms or avoid litigation related to such licenses could have a severe impact on the future operations of the Company.

SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)

The following summarizes the unaudited operating results of the Company for the fiscal years ended December 31, 1996 and 1995.

(In thousands) 1996	Three Months Ended			
	March 31	June 30	September 30	December 31
Net revenues	\$51,606	\$27,055	\$33,106	\$72,058
Gross margin	25,327	568	11,295	15,182
Income (loss) from operations	4,614	(22,198)	(10,648)	(4,869)
Income (loss) before provision (benefit) for income taxes and extraordinary item	2,964	(23,999)	(10,524)	(6,940)
Net income (loss)	1,956	(16,422)	(6,946)	(4,450)
Net income (loss) per common and common equivalent share:				
Net income (loss) before extraordinary item	.10	(.79)	(.36)	(.23)
Extraordinary item	-	(.06)	-	-
Net income (loss)	\$.10	\$ (.85)	\$ (.36)	\$ (.23)

1995	Three Months Ended			
	March 31	June 30	September 30	December 31
Net revenues	\$85,144	\$50,238	\$53,572	\$39,058
Gross margin	45,077	19,325	18,590	2,957
Income (loss) from operations	27,416	2,296	2,264	(14,241)
Income before provision (benefit) for income taxes	27,111	11,444	848	(15,628)
Net income (loss)	17,485	7,494	557	(9,924)
Net income (loss) per common and common equivalent share	\$.88	\$.38	\$.03	\$ (.49)

The Company's quarterly operating results are subject to fluctuations as a result of a number of factors, including general economic conditions, conditions in the semiconductor or personal computer industries, decreases in average selling prices over the life of any product, the timing of new product introductions and related expenses, changes in demand for the Company's products, changes in product mix, manufacturing capacity available to the Company, manufacturing yields, and the commencement of, developments in or outcome of litigation.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the headings “Election of Directors,” “Management of the Company” and “Compliance with Section 16(a) of the Exchange Act” contained in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (“the Exchange Act”), in connection with the Company’s 1997 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the heading “Executive Compensation” contained in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company’s 1997 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the headings “Security Ownership of Directors and Executive Officers” and “Principal Stockholders” contained in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company’s 1997 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the headings “Election of Directors,” “Executive Compensation” and “Other Matters” contained in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company’s 1997 Annual Meeting of Stockholders is incorporated herein by reference.