

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	July 4, 2010	January 3, 2010
ASSETS		
Cash, cash equivalents and short-term investments (a)	\$ 278,178	\$ 299,642
Accounts receivable, net	145,905	86,959
Inventories, net (b)	81,463	91,198
Property, plant and equipment, net	267,646	272,620
Goodwill and other intangible assets, net	46,317	46,968
Other assets	120,526	115,121
Total assets	\$ 940,035	\$ 912,508
LIABILITIES AND EQUITY		
Accounts payable	\$ 58,105	\$ 61,712
Deferred income	108,267	75,881
Income tax liabilities	53,467	46,362
Other accrued liabilities	93,008	98,169
Total liabilities	312,847	282,124
Total Cypress stockholders' equity	628,737	631,587
Noncontrolling interest	(1,549)	(1,203)
Total equity	627,188	630,384
Total liabilities and equity	\$ 940,035	\$ 912,508

- (a) Cash, cash equivalents and short-term investments do not include \$31 million and \$33 million of auction rate securities and commercial paper, which are classified as long-term investments in "Other assets" as of July 4, 2010 and January 3, 2010, respectively.
- (b) Net inventories included approximately \$7 million and \$12 million as of July 4, 2010 and January 3, 2010, respectively related to the last-time-build program for Cypress's Texas manufacturing facility, which ceased operations at the end of fiscal 2008. In addition, inventories include \$4 million and \$6 million of capitalized inventories related to stock compensation expense, as of July 4, 2010 and January 3, 2010, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
ON A GAAP BASIS
(In thousands, except per-share data)
(Unaudited)

	Three Months Ended		
	July 4, 2010	April 4, 2010	June 28, 2009
Revenues	\$ 223,024	\$ 202,271	\$ 155,784
Cost of revenues	98,078	95,784	98,672
Gross margin (a)	124,946	106,487	57,112
Operating expenses:			
Research and development (a)	43,106	40,049	48,196
Selling, general and administrative (a)	54,147	51,281	53,069
Amortization of acquisition-related intangibles	722	776	834
Restructuring charges (credits)	(1,167)	327	1,089
Total operating expenses, net	96,808	92,433	103,188
Operating income (loss)	28,138	14,054	(46,076)
Interest and other income (expense), net (a)	(1,165)	730	2,115
Income (loss) before income taxes	26,973	14,784	(43,961)
Income tax provision	(6,337)	(2,110)	(1,324)
Income (loss), net of taxes	20,636	12,674	(45,285)
Noncontrolling interest, net of taxes	(183)	(163)	(178)
Net income (loss)	20,453	12,511	(45,463)
Less: net loss attributable to noncontrolling interest	183	163	178
Net income (loss) attributable to Cypress	<u>\$ 20,636</u>	<u>\$ 12,674</u>	<u>\$ (45,285)</u>
Net income (loss) per share attributable to Cypress:			
Basic	\$ 0.13	\$ 0.08	\$ (0.32)
Diluted	\$ 0.11	\$ 0.07	\$ (0.32)
Shares used in net income (loss) per share calculation:			
Basic	160,749	158,931	141,107
Diluted	190,342	190,892	141,107

(a) Includes the following credit (expense) related to Cypress's deferred compensation plan:

Gross margin	\$ 294	\$ (141)	\$ (252)
Research and development	\$ 648	\$ (290)	\$ (749)
Selling, general and administrative	\$ 1,239	\$ (596)	\$ (1,572)
Interest and other income (expense), net	\$ (2,177)	\$ 835	\$ 2,310

RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES (a)
(In thousands)
(Unaudited)

Three Months Ended July 4, 2010						
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 43,289	\$ 19,759	\$ 60,845	\$ 123,893	\$ 1,053	\$ 124,946
Stock-based compensation expense	2,480	954	3,649	7,083	171	7,254
Non-GAAP gross margin	<u>\$ 45,769</u>	<u>\$ 20,713</u>	<u>\$ 64,494</u>	<u>\$ 130,976</u>	<u>\$ 1,224</u>	<u>\$ 132,200</u>

Three Months Ended April 4, 2010						
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 40,568	\$ 18,673	\$ 47,421	\$ 106,662	\$ (175)	\$ 106,487
Stock-based compensation expense	2,189	796	2,909	5,894	76	5,970
Non-GAAP gross margin	<u>\$ 42,757</u>	<u>\$ 19,469</u>	<u>\$ 50,330</u>	<u>\$ 112,556</u>	<u>\$ (99)</u>	<u>\$ 112,457</u>

Three Months Ended June 28, 2009						
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 25,456	\$ 14,614	\$ 19,056	\$ 59,126	\$ (2,014)	\$ 57,112
Stock-based compensation expense	4,475	1,832	4,755	11,062	126	11,188
Acquisition-related expense	-	-	559	559	-	559
Non-GAAP gross margin	<u>\$ 29,931</u>	<u>\$ 16,446</u>	<u>\$ 24,370</u>	<u>\$ 70,747</u>	<u>\$ (1,888)</u>	<u>\$ 68,859</u>

(a) Please refer to the accompanying "Notes to Non-GAAP Financial Measures" for a detailed discussion of management's use of non-GAAP financial measures.

(b) CCD - Consumer and Computation Division; DCD - Data Communications Division; MID - Memory and Imaging Division.

(c) "Core Semi" - Includes CCD, DCD and MID divisions and excludes "Emerging Technologies."

(d) "Emerging Technologies" - Activities outside our core semiconductor businesses outlined in footnote (c). Includes wholly owned subsidiaries Cypress Envirosystems, AgigA Tech and other.

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES (a)
(In thousands, except per-share data)
(Unaudited)

	Three Months Ended		
	July 4, 2010	April 4, 2010	June 28, 2009
GAAP research and development expenses	\$ 43,106	\$ 40,049	\$ 48,196
Stock-based compensation expense	(6,060)	(4,357)	(10,746)
Acquisition-related expense	(1)	(2)	(23)
Changes in value of deferred compensation plan	96	(36)	(104)
Non-GAAP research and development expenses	<u>\$ 37,141</u>	<u>\$ 35,654</u>	<u>\$ 37,323</u>
GAAP selling, general and administrative expenses	\$ 54,147	\$ 51,281	\$ 53,069
Stock-based compensation expense	(12,965)	(11,247)	(15,745)
Acquisition-related expense	(8)	(6)	14
Changes in value of deferred compensation plan	14	(7)	(8)
Impairment of assets	(366)	-	-
Non-GAAP selling, general and administrative expenses	<u>\$ 40,822</u>	<u>\$ 40,021</u>	<u>\$ 37,330</u>
GAAP operating income (loss)	\$ 28,138	\$ 14,054	\$ (46,076)
Stock-based compensation expense	26,279	21,574	37,679
Acquisition-related expense	730	784	1,402
Changes in value of deferred compensation plan	(110)	43	112
Restructuring charges	(1,167)	327	1,089
Impairment of assets	366	-	-
Non-GAAP operating income (loss)	<u>\$ 54,236</u>	<u>\$ 36,782</u>	<u>\$ (5,794)</u>
GAAP net income (loss) attributable to Cypress	\$ 20,636	\$ 12,674	\$ (45,285)
Stock-based compensation expense	26,279	21,574	37,679
Acquisition-related expense	730	784	1,402
Changes in value of deferred compensation plan	(110)	43	112
Restructuring charges	(1,167)	327	1,089
Impairment of assets	366	-	-
Adjustment for convertible debt	-	-	392
Tax effects	1,344	(1,295)	833
Non-GAAP net income (loss) attributable to Cypress	<u>\$ 48,078</u>	<u>\$ 34,107</u>	<u>\$ (3,778)</u>
GAAP net income (loss) per share attributable to Cypress - basic	\$ 0.13	\$ 0.08	\$ (0.32)
Stock-based compensation expense	0.16	0.14	0.27
Acquisition-related expense	-	-	0.01
Restructuring charges	-	-	0.01
Tax effects	0.01	(0.01)	-
Non-GAAP net income (loss) per share attributable to Cypress - basic	<u>\$ 0.30</u>	<u>\$ 0.21</u>	<u>\$ (0.03)</u>
GAAP net income (loss) per share attributable to Cypress - diluted	\$ 0.11	\$ 0.07	\$ (0.32)
Stock-based compensation expense	0.13	0.11	0.27
Acquisition-related expense	-	-	0.01
Restructuring charges	-	-	0.01
Tax effects	-	(0.01)	-
Non-GAAP net income (loss) per share attributable to Cypress - diluted	<u>\$ 0.24</u>	<u>\$ 0.17</u>	<u>\$ (0.03)</u>

(a) Please refer to the accompanying "Notes to Non-GAAP Financial Measures" for a detailed discussion of management's use of non-GAAP financial measures.

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED DILUTED EPS CALCULATION
(In thousands, except per-share data)
(Unaudited)

	Three Months Ended					
	July 4, 2010		April 4, 2010		June 28, 2009	
	GAAP	Non-GAAP	GAAP	Non-GAAP	GAAP	Non-GAAP
Net income (loss) attributable to Cypress	\$ 20,636	\$ 48,078	\$ 12,674	\$ 34,107	\$ (45,285)	\$ (3,778)
Weighted-average common shares outstanding (basic)	160,749	160,749	158,931	158,931	141,107	141,107
Effect of dilutive securities:						
Stock options, unvested restricted stock and other	29,593	37,015	31,961	39,966	-	-
Weighted-average common shares outstanding for diluted computation	190,342	197,764	190,892	198,897	141,107	141,107
Net income (loss) per share attributable to Cypress - basic	\$ 0.13	\$ 0.30	\$ 0.08	\$ 0.21	\$ (0.32)	\$ (0.03)
Net income (loss) per share attributable to Cypress - diluted	\$ 0.11	\$ 0.24	\$ 0.07	\$ 0.17	\$ (0.32)	\$ (0.03)

	July 4, 2010	April 4, 2010	June 28, 2009
Average stock price for the three months ended	\$11.70	\$11.52	\$7.95
Common stock outstanding at period end (in thousands)	159,873	161,764	147,557

Includes unvested restricted stock awards of approximately 1.9 million shares at July 4, 2010 and April 4, 2010 and 3.0 million shares at June 28, 2009.

CYPRESS SEMICONDUCTOR CORPORATION
SUPPLEMENTAL FINANCIAL DATA
(In thousands)
(Unaudited)

Selected Cash Flow Data (Preliminary):

Net cash provided by (used in) operating activities
Net cash provided by (used in) investing activities
Net cash provided by (used in) financing activities

Other Supplemental Data (Preliminary):

Capital expenditures
Depreciation

	Three Months Ended			Six Months Ended	
	July 4, 2010	April 4, 2010	June 28, 2009	July 4, 2010	June 28, 2009
Net cash provided by (used in) operating activities	\$ 46,032	\$ 38,123	\$ 5,531	\$ 84,155	\$ (10,273)
Net cash provided by (used in) investing activities	\$ (13,937)	\$ (43,757)	\$ (23,590)	\$ (57,694)	\$ (8,369)
Net cash provided by (used in) financing activities	\$ (60,339)	\$ (20,883)	\$ 20,510	\$ (81,222)	\$ 26,735
Capital expenditures	\$ 8,533	\$ 17,872	\$ 4,907	\$ 26,405	\$ 11,455
Depreciation	\$ 11,947	\$ 11,461	\$ 12,951	\$ 23,408	\$ 26,531

Notes to Non-GAAP Financial Measures

To supplement its consolidated financial results presented in accordance with GAAP, Cypress uses non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described in details below. Management believes that these non-GAAP financial measures reflect an additional and useful way of viewing aspects of Cypress's operations that, when viewed in conjunction with Cypress's GAAP results, provide a more comprehensive understanding of the various factors and trends affecting Cypress's business and operations. Non-GAAP financial measures used by Cypress include:

- Gross margin;
- Research and development expenses;
- Selling, general and administrative expenses;
- Operating income (loss);
- Net income (loss); and
- Diluted net income (loss) per share.

Cypress uses each of these non-GAAP financial measures for internal managerial purposes, when providing its financial results and business outlook to the public, and to facilitate period-to-period comparisons. Management believes that these non-GAAP measures provide meaningful supplemental information regarding Cypress's operational and financial performance of current and historical results. Management uses these non-GAAP measures for strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these non-GAAP financial measures facilitate management's internal comparisons to Cypress's historical operating results and comparisons to competitors' operating results.

Cypress believes that providing these non-GAAP financial measures, in addition to the GAAP financial results, are useful to investors because they allow investors to see Cypress's results "through the eyes" of management as these non-GAAP financial measures reflect Cypress's internal measurement processes. Management believes that these non-GAAP financial measures enable investors to better assess changes in each key element of Cypress's operating results across different reporting periods on a consistent basis. Thus, management believes that each of these non-GAAP financial measures provides investors with another method for assessing Cypress's operating results in a manner that is focused on the performance of its ongoing operations.

There are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. In addition, non-GAAP financial measures may be limited in value because they exclude certain items that may have a material impact upon Cypress's reported financial results. Management compensates for these limitations by providing investors with reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP financial measures. The non-GAAP financial measures supplement, and should be viewed in conjunction with, GAAP financial measures. Investors should review the reconciliations of the non-GAAP financial measures to their most directly comparable GAAP financial measures as provided in the accompanying press release.

As presented in the "Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures" tables in the accompanying press release, each of the non-GAAP financial measures excludes one or more of the following items:

- **Stock-based compensation expense.**

Stock-based compensation expense relates primarily to the equity awards such as stock options and restricted stock. Stock-based compensation is a non-cash expense that varies in amount from period to period and is dependent on market forces that are often beyond Cypress's control. As a result, management excludes this item from Cypress's internal operating forecasts and models. Management believes that non-GAAP measures adjusted for stock-based compensation provide investors with a basis to measure Cypress's core performance against the performance of other companies without the variability created by stock-based compensation as a result of the variety of equity awards used by companies and the varying methodologies and subjective assumptions used in determining such non-cash expense.
- **Changes in value of Cypress's key employee deferred compensation plan.**

Cypress sponsors a voluntary deferred compensation plan which provides certain key employees with the option to defer the receipt of compensation in order to accumulate funds for retirement. The amounts are held in a trust and Cypress does not make contributions to the deferred compensation plan or guarantee returns on the investment. Changes in the value of the investment in Cypress's common stock under the plan are excluded from the non-GAAP measures. Management believes that such non-cash item is not related to the ongoing core business and operating performance of Cypress, as the investment contributions are made by the employees themselves.
- **Restructuring charges.**

Restructuring charges primarily relate to activities engaged by management to make changes related to its infrastructure in an effort to reduce costs. Restructuring charges are excluded from non-GAAP financial measures because they are not considered core operating activities and such costs have not historically occurred in each year. Although Cypress has engaged in various restructuring activities in the past, each has been a discrete event based on a unique set of business objectives. As such, management believes that it is appropriate to exclude restructuring charges from Cypress's non-GAAP financial measures, as it enhances the ability of investors to compare Cypress's period-over-period operating results from continuing operations.
- **Adjustment for convertible debt.**

During the first quarter of fiscal 2009, we adopted new accounting guidance on convertible debt which specified that Cypress should separately account for the liability and equity components of the instruments. The adoption required the retrospective application of the guidance and we recorded additional non-cash interest expense. These costs are excluded from the non-GAAP financial measures because such non-cash expenses have not historically occurred in every quarter, which would affect the ability of investors to compare Cypress's period-over-period operating results. In addition, management does not believe that this item is indicative of the ongoing operating performance of Cypress's business.
- **Acquisition-related expense.**

Acquisition-related expense primarily includes: (1) impairment of goodwill, (2) amortization of intangibles, which include acquired intangibles such as purchased technology, patents and trademarks, (3) a settlement loss resulted from the cancellation of a licensing agreement with Simtek following the acquisition, and (4) earn-out compensation expense, which include compensation resulting from the achievement of milestones established in accordance with the terms of the acquisitions. In most cases, these acquisition-related charges are not factored into management's evaluation of potential acquisitions or Cypress's performance after completion of acquisitions, because they are not related to Cypress's core operating performance. Adjustments of these items provide investors with a basis to compare Cypress against the performance of other companies without the variability caused by purchase accounting.

- Impairment of assets.

In the second quarter of fiscal 2010, Cypress wrote off the book value of certain assets as management determined these assets have no future benefit to Cypress. Cypress excluded this item because the expense is not reflective of its ongoing operating results. Excluding this data allows investors to better compare Cypress's period-over-period performance without such expense.

- Related tax effect.

Cypress adjusts for the income tax effect that resulted from the non-GAAP adjustments as described above.