

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

	January 2, 2011	January 3, 2010
ASSETS		
Cash, cash equivalents and short-term investments (a)	\$ 434,261	\$ 299,642
Accounts receivable, net	117,726	86,959
Inventories, net (b)	101,763	91,198
Property, plant and equipment, net	260,122	272,620
Goodwill and other intangible assets, net	44,335	46,968
Other assets	114,594	115,121
Total assets	\$ 1,072,801	\$ 912,508
LIABILITIES AND EQUITY		
Accounts payable	\$ 66,977	\$ 61,712
Deferred income	131,757	75,881
Income tax liabilities	65,461	46,362
Other accrued liabilities	112,873	98,169
Total liabilities	377,068	282,124
Total Cypress stockholders' equity	698,293	631,587
Noncontrolling interest	(2,560)	(1,203)
Total equity	695,733	630,384
Total liabilities and equity	\$ 1,072,801	\$ 912,508

- (a) Cash, cash equivalents and short-term investments do not include \$24 million and \$33 million of auction rate securities which are classified as long-term investments in "Other assets" as of January 2, 2011 and January 3, 2010, respectively.
- (b) Net inventories included approximately \$5 million and \$12 million as of January 2, 2011 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 \$6 million of capitalized inventories related to stock compensation expense, as of January 2, 2011 and January 3, 2010.

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

	Three Months Ended			Twelve Months Ended	
	January 2, 2011	October 3, 2010	January 3, 2010	January 2, 2011	January 3, 2010
Revenues (b)	\$ 220,314	\$ 231,923	\$ 193,974	\$ 877,532	\$ 667,786
Cost of revenues	97,256	97,241	99,054	388,359	397,204
Gross margin (a)	123,058	134,682	94,920	489,173	270,582
Operating expenses:					
Research and development (a)	47,909	45,753	39,685	176,816	181,189
Selling, general and administrative (a)	58,679	54,384	50,702	218,490	219,602
Amortization of acquisition-related intangibles	812	717	817	3,028	3,804
Restructuring charges (credits)	(283)	3,103	772	2,975	15,242
Total operating expenses, net	107,117	103,957	91,976	401,309	419,837
Operating income (loss)	15,941	30,725	2,944	87,864	(149,255)
Interest and other income, net (a)	2,246	5,357	1,577	7,168	4,685
Income (loss) before income taxes	18,187	36,082	4,521	95,032	(144,570)
Income tax provision	9,134	1,709	1,669	19,290	5,854
Income (loss), net of taxes	9,053	34,373	2,852	75,742	(150,424)
Noncontrolling interest, net of taxes	(375)	(145)	(383)	(866)	(946)
Net income (loss)	8,678	34,228	2,469	74,876	(151,370)
Less: net loss attributable to noncontrolling interest	375	145	383	866	946
Net income (loss) attributable to Cypress	<u>\$ 9,053</u>	<u>\$ 34,373</u>	<u>\$ 2,852</u>	<u>\$ 75,742</u>	<u>\$ (150,424)</u>
Net income (loss) per share attributable to Cypress:					
Basic	\$ 0.05	\$ 0.22	\$ 0.02	\$ 0.47	\$ (1.03)
Diluted	\$ 0.05	\$ 0.18	\$ 0.02	\$ 0.40	\$ (1.03)
Shares used in net income (loss) per share calculation:					
Basic	165,873	158,901	154,798	161,114	145,611
Diluted	197,556	186,718	184,297	191,377	145,611

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

Gross margin	\$ (196)	\$ (327)	\$ (57)	\$ (370)	\$ (516)
Research and development	\$ (580)	\$ (738)	\$ (63)	\$ (959)	\$ (1,454)
Selling, general and administrative	\$ (913)	\$ (1,457)	\$ (417)	\$ (1,726)	\$ (3,168)
Interest and other income, net	\$ 1,690	\$ 2,305	\$ 1,000	\$ 2,653	\$ 5,150

(b) Includes a reduction of \$6.3 million related to the SRAM legal settlement in the fourth quarter of fiscal 2010.

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

	Three Months Ended January 2, 2011					
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 60,018	\$ 16,992	\$ 45,222	\$ 122,232	\$ 826	\$ 123,058
Stock-based compensation expense	1,952	491	1,863	4,306	76	4,382
SRAM legal settlement	-	-	6,250	6,250	-	6,250
Impairment of assets	133	34	127	294	5	299
Non-GAAP gross margin	<u>\$ 62,103</u>	<u>\$ 17,517</u>	<u>\$ 53,462</u>	<u>\$ 133,082</u>	<u>\$ 907</u>	<u>\$ 133,989</u>

	Three Months Ended October 3, 2010					
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 54,270	\$ 20,726	\$ 57,852	\$ 132,848	\$ 1,834	\$ 134,682
Stock-based compensation expense and other	1,990	627	2,275	4,892	132	5,024
Non-GAAP gross margin	<u>\$ 56,260</u>	<u>\$ 21,353</u>	<u>\$ 60,127</u>	<u>\$ 137,740</u>	<u>\$ 1,966</u>	<u>\$ 139,706</u>

	Three Months Ended January 3, 2010					
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 44,286	\$ 15,768	\$ 38,819	\$ 98,873	\$ (3,953)	\$ 94,920
Stock-based compensation expense	2,967	927	3,058	6,952	86	7,038
License royalty	-	-	-	-	2,610	2,610
Non-GAAP gross margin	<u>\$ 47,253</u>	<u>\$ 16,695</u>	<u>\$ 41,877</u>	<u>\$ 105,825</u>	<u>\$ (1,257)</u>	<u>\$ 104,568</u>

	Twelve Months Ended January 2, 2011					
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 198,145	\$ 76,150	\$ 211,340	\$ 485,635	\$ 3,538	\$ 489,173
Stock-based compensation expense	8,645	2,879	10,735	22,259	457	22,716
SRAM legal settlement	-	-	6,250	6,250	-	6,250
Impairment of assets and other	99	23	88	210	3	213
Non-GAAP gross margin	<u>\$ 206,889</u>	<u>\$ 79,052</u>	<u>\$ 228,413</u>	<u>\$ 514,354</u>	<u>\$ 3,998</u>	<u>\$ 518,352</u>

	Twelve Months Ended January 3, 2010					
	CCD (b)	DCD (b)	MID (b)	Core Semi (c)	Emerging Technologies (d)	Consolidated
GAAP gross margin	\$ 125,701	\$ 55,115	\$ 98,722	\$ 279,538	\$ (8,956)	\$ 270,582
Stock-based compensation expense	16,431	6,015	17,908	40,354	444	40,798
License royalty	-	-	-	-	2,614	2,614
Acquisition-related expense	-	-	559	559	-	559
Changes in value of deferred compensation plan	-	-	-	-	5	5
Non-GAAP gross margin	<u>\$ 142,132</u>	<u>\$ 61,130</u>	<u>\$ 117,189</u>	<u>\$ 320,451</u>	<u>\$ (5,893)</u>	<u>\$ 314,558</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			Twelve Months Ended	
	January 2, 2011	October 3, 2010	January 3, 2010	January 2, 2011	January 3, 2010
GAAP revenue	\$ 220,314	\$ 231,923	\$ 193,974	\$ 877,532	\$ 667,786
SRAM legal settlement	6,250	-	-	6,250	-
Non-GAAP revenue	<u>\$ 226,564</u>	<u>\$ 231,923</u>	<u>\$ 193,974</u>	<u>\$ 883,782</u>	<u>\$ 667,786</u>
GAAP research and development expenses	\$ 47,909	\$ 45,753	\$ 39,685	\$ 176,816	\$ 181,189
Stock-based compensation expense	(5,792)	(5,332)	(6,498)	(21,541)	(37,537)
Acquisition-related expense	-	-	(8)	(2)	(75)
Gain on sale of long-term asset	-	-	2,437	-	2,437
Changes in value of deferred compensation plan	(183)	(91)	27	(214)	(135)
Non-GAAP research and development expenses	<u>\$ 41,934</u>	<u>\$ 40,330</u>	<u>\$ 35,643</u>	<u>\$ 155,059</u>	<u>\$ 145,879</u>
GAAP selling, general and administrative expenses	\$ 58,679	\$ 54,384	\$ 50,702	\$ 218,490	\$ 219,602
Stock-based compensation expense	(11,422)	(11,568)	(11,677)	(47,202)	(63,477)
Acquisition-related expense	7	5	(12)	-	(52)
Changes in value of deferred compensation plan	(29)	(15)	2	(37)	(46)
SRAM legal settlement	(1,000)	-	-	(1,000)	-
Impairment of assets	(4,927)	-	-	(5,293)	-
Non-GAAP selling, general and administrative expenses	<u>\$ 41,308</u>	<u>\$ 42,806</u>	<u>\$ 39,015</u>	<u>\$ 164,958</u>	<u>\$ 156,027</u>
GAAP operating income (loss)	\$ 15,941	\$ 30,725	\$ 2,944	\$ 87,864	\$ (149,255)
Stock-based compensation expense	21,596	21,924	25,213	91,459	141,812
License royalty	-	-	2,610	-	2,614
Acquisition-related expense	805	712	837	3,028	4,490
Gain on sale of long-term asset	-	-	(2,437)	-	(2,440)
Changes in value of deferred compensation plan	212	107	(29)	252	186
Restructuring charges	(283)	3,103	774	2,975	15,242
SRAM legal settlement	7,250	-	-	7,250	-
Impairment of assets and other	5,226	-	-	5,506	-
Non-GAAP operating income	<u>\$ 50,747</u>	<u>\$ 56,571</u>	<u>\$ 29,912</u>	<u>\$ 198,334</u>	<u>\$ 12,649</u>
GAAP net income (loss) attributable to Cypress	\$ 9,053	\$ 34,373	\$ 2,852	\$ 75,742	\$ (150,424)
Stock-based compensation expense	21,596	21,924	25,213	91,459	141,812
License royalty	-	-	2,610	-	2,614
Acquisition-related expense	805	712	837	3,028	4,490
Gain on sale of long-term asset	-	-	(2,437)	-	(2,440)
Changes in value of deferred compensation plan	212	107	(29)	252	186
Restructuring charges	(283)	3,103	774	2,975	15,242
Investment-related gains/losses	400	(3,894)	487	(3,158)	3,257
SRAM legal settlement	7,250	-	-	7,250	-
Impairment of assets and other	5,226	-	-	5,506	-
Tax effects	6,343	(2,951)	1,438	3,105	3,006
Non-GAAP net income attributable to Cypress	<u>\$ 50,602</u>	<u>\$ 53,374</u>	<u>\$ 31,745</u>	<u>\$ 186,159</u>	<u>\$ 17,743</u>
GAAP net income (loss) per share attributable to Cypress - diluted	\$ 0.05	\$ 0.18	\$ 0.02	\$ 0.40	\$ (1.03)
Stock-based compensation expense	0.11	0.11	0.14	0.45	0.97
License royalty	-	-	0.01	-	0.02
Acquisition-related expense	-	-	-	0.01	0.03
Gain on sale of long-term asset	-	-	(0.01)	-	(0.02)
Restructuring charges	-	0.02	-	0.01	0.10
Investment-related gains/losses	-	(0.02)	-	(0.02)	0.02
SRAM legal settlement	0.04	-	-	0.04	-
Impairment of assets and other	0.02	-	-	0.03	-
Tax effects	0.03	(0.01)	0.01	0.02	0.02
Non-GAAP share count adjustment	-	-	(0.01)	-	(0.01)
Non-GAAP net income per share attributable to Cypress - diluted	<u>\$ 0.25</u>	<u>\$ 0.28</u>	<u>\$ 0.16</u>	<u>\$ 0.94</u>	<u>\$ 0.10</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						Twelve Months Ended			
	January 2, 2011		October 3, 2010		January 3, 2010		January 2, 2011		January 3, 2010	
	GAAP	Non-GAAP	GAAP	Non-GAAP	GAAP	Non-GAAP	GAAP	Non-GAAP	GAAP	Non-GAAP
Net income (loss) attributable to Cypress	\$ 9,053	\$ 50,602	\$ 34,373	\$ 53,374	\$ 2,852	\$ 31,745	\$ 75,742	\$ 186,159	\$ (150,424)	\$ 17,743
Weighted-average common shares outstanding (basic)	165,873	165,873	158,901	158,901	154,798	154,798	161,114	161,114	145,611	145,611
Effect of dilutive securities:										
Stock options, unvested restricted stock and other	31,683	36,377	27,817	34,204	29,499	38,854	30,263	36,832	-	37,637
Weighted-average common shares outstanding for diluted computation	197,556	202,250	186,718	193,105	184,297	193,652	191,377	197,946	145,611	183,248
Net income (loss) per share attributable to Cypress - basic	\$ 0.05	\$ 0.31	\$ 0.22	\$ 0.34	\$ 0.02	\$ 0.21	\$ 0.47	\$ 1.16	\$ (1.03)	\$ 0.12
Net income (loss) per share attributable to Cypress - diluted	\$ 0.05	\$ 0.25	\$ 0.18	\$ 0.28	\$ 0.02	\$ 0.16	\$ 0.40	\$ 0.94	\$ (1.03)	\$ 0.10

	January 2, 2011		October 3, 2010		January 3, 2010		January 2, 2011		January 3, 2010	
	Average stock price for the period ended	\$15.51		\$11.19		\$9.80		\$12.48		\$8.33
Common stock outstanding at period end (in thousands)	170,363		162,954		159,382		170,363		159,382	
Includes unvested restricted stock awards of approximately 1.9 million shares at January 2, 2011 and October 3, 2010 and 2.4 million shares										

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

Selected Cash Flow Data (Preliminary):

Net cash provided by 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			Twelve Months Ended	
	January 2, 2011	October 3, 2010	January 3, 2010	January 2, 2011	January 3, 2010
Net cash provided by operating activities	\$ 76,347	\$ 109,405	\$ 75,275	\$ 269,906	\$ 89,303
Net cash provided by (used in) investing activities	\$ (96,099)	\$ 3,059	\$ (5,424)	\$ (150,734)	\$ (43,126)
Net cash provided by (used in) financing activities	\$ (30,645)	\$ 12,320	\$ (17,407)	\$ (99,547)	\$ (7,368)
Capital expenditures	\$ 13,666	\$ 10,715	\$ 7,545	\$ 50,786	\$ 25,823
Depreciation	\$ 12,402	\$ 12,049	\$ 12,370	\$ 47,859	\$ 50,870

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.
- Acquisition-related expense.

Acquisition-related expense primarily includes: (1) amortization of intangibles, which include acquired intangibles such as purchased technology, patents and trademarks, and (2) 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.
- Investment-related gains/losses.

Investment-related gains/losses primarily include: (1) impairment loss related to Cypress's investment when it determines the decline in fair value is other-than-temporary in nature, and (2) gains/losses related to the sales of its debt and equity investments. These items are excluded from non-GAAP financial measures because they are not related to the core operating activities and operating performance of Cypress, and in most cases, such transactions have not historically occurred in every quarter. As such, management believes that it is appropriate to exclude investment-related gains/losses from Cypress's non-GAAP financial measures, as it enhances the ability of investors to compare Cypress's period-over-period operating results.

- **Impairment of assets.**

Cypress wrote down the book value of certain assets to its estimated fair value as management determined these assets will be donated, sold or will have no future benefit. Cypress excludes these items 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.
- **SRAM legal settlement.**

Cypress has settled the SRAM civil antitrust lawsuits. Cypress excludes these items because the legal settlements are not reflective of its ongoing operating results. Excluding this data allows investors to better compare Cypress's period-over-period performance without such expense.
- **License royalty.**

License royalty represents the historical impact of a license agreement signed in the fourth quarter of 2009. These historical costs are excluded from Cypress's non-GAAP financial measures primarily because it is not reflective of the ongoing operating performance of Cypress's business and can distort the period-over-period comparison.
- **Gains on sales of long-term assets.**

Cypress recognizes gains resulting from the sale of certain long-term assets that no longer align with Cypress's long-term operating plan. Cypress excludes these items from its non-GAAP financial measures primarily because it is not reflective of the ongoing operating performance of Cypress's business and can distort the period-over-period comparison.
- **Tax effects.**

Cypress adjusts for the income tax effect that resulted from the non-GAAP adjustments as described above. Additionally, Cypress also excludes the impact of items that are related to historical activities in nature and not reflective of the ongoing operating results of Cypress.