

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

	September 30, 2007	December 31, 2006
ASSETS		
Cash, cash equivalents, and investments (a)	\$ 1,437,071	\$ 643,480
Accounts receivable, net	192,192	163,196
Inventories, net	195,674	119,184
Property, plant and equipment, net	693,461	572,018
Goodwill and other intangible assets	597,402	395,845
Other assets	397,555	229,802
Total assets	<u>\$ 3,513,355</u>	<u>\$ 2,123,525</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 147,288	\$ 92,206
Deferred income	38,475	44,917
Convertible debt	1,025,000	598,996
Income tax liabilities	77,436	47,792
Other accrued liabilities	244,885	170,583
Total liabilities	1,533,084	954,494
Minority interest	365,918	123,472
Stockholders' equity	1,614,353	1,045,559
Total liabilities and stockholders' equity	<u>\$ 3,513,355</u>	<u>\$ 2,123,525</u>

(a) Cash, cash equivalents, and investments included restricted cash totaling \$40.6 million and \$63.3 million as of September 30, 2007 and December 31, 2006, respectively.

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

	THREE MONTHS ENDED		
	September 30, 2007	July 1, 2007	October 1, 2006
Revenues	\$ 449,535	\$ 372,786	\$ 290,207
Cost of revenues	307,536	250,038	166,649
Gross margin	141,999	122,748	123,558
Operating expenses (credits):			
Research and development	46,642	42,737	61,646
Selling, general and administrative	70,925	74,712	48,652
Amortization of acquisition-related intangibles	8,812	9,593	3,748
Impairment of acquisition-related intangibles	-	14,068	-
Impairment related to synthetic lease	-	-	500
Gain on divestiture	(6,647)	-	-
Total operating expenses, net	119,732	141,110	114,546
Operating income (loss)	22,267	(18,362)	9,012
Interest income and other, net	14,048	377,798	6,385
Income before income tax and minority interest	36,315	359,436	15,397
Income tax (provision) benefit	(2,667)	1,885	(2,320)
Minority interest, net of tax	(3,825)	2,039	(2,363)
Net income	<u>\$ 29,823</u>	<u>\$ 363,360</u>	<u>\$ 10,714</u>
Basic net income per share	\$ 0.19	\$ 2.39	\$ 0.08
Diluted net income per share	\$ 0.18	\$ 2.29	\$ 0.06
Shares used in per-share calculation:			
Basic	154,850	152,111	141,284
Diluted	165,993	158,857	179,087

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

Selected Balance Sheet Data:

Cash, cash equivalents, and investments (b)
Accounts receivable, net
Inventories, net
Property, plant and equipment, net
Goodwill and other intangible assets
Accounts payable
Deferred income
Convertible debt
Income tax liabilities

September 30, 2007		
Semiconductor (a)	SunPower	Consolidated
\$ 942,121	\$ 494,950	\$ 1,437,071
\$ 109,398	\$ 82,794	\$ 192,192
\$ 95,734	\$ 99,940	\$ 195,674
\$ 345,272	\$ 348,189	\$ 693,461
\$ 359,481	\$ 237,921	\$ 597,402
\$ 44,447	\$ 102,841	\$ 147,288
\$ 38,419	\$ 56	\$ 38,475
\$ 600,000	\$ 425,000	\$ 1,025,000
\$ 56,171	\$ 21,265	\$ 77,436

December 31, 2006		
Semiconductor (a)	SunPower	Consolidated
\$ 461,388	\$ 182,092	\$ 643,480
\$ 111,516	\$ 51,680	\$ 163,196
\$ 96,404	\$ 22,780	\$ 119,184
\$ 369,590	\$ 202,428	\$ 572,018
\$ 378,913	\$ 16,932	\$ 395,845
\$ 65,672	\$ 26,534	\$ 92,206
\$ 44,641	\$ 276	\$ 44,917
\$ 598,996	\$ -	\$ 598,996
\$ 45,751	\$ 2,041	\$ 47,792

Other Supplemental Data:

Capital expenditures
Depreciation

THREE MONTHS ENDED September 30, 2007		
Semiconductor (a)	SunPower	Consolidated
\$ 6,144	\$ 58,636	\$ 64,780
\$ 18,578	\$ 6,241	\$ 24,819

THREE MONTHS ENDED July 1, 2007		
Semiconductor (a)	SunPower	Consolidated
\$ 8,682	\$ 47,636	\$ 56,318
\$ 19,228	\$ 5,762	\$ 24,990

Selected Cash Flow Data:

Net cash flow generated from (used in) operating activities
Net cash flow generated from (used in) investing activities
Net cash flow generated from (used in) financing activities

NINE MONTHS ENDED September 30, 2007		
Semiconductor (a)	SunPower	Consolidated
\$ 73,852	\$ (18,557)	\$ 55,295
\$ 481,009	\$ (338,987)	\$ 142,022
\$ (53,803)	\$ 584,742	\$ 530,939

NINE MONTHS ENDED October 1, 2006		
Semiconductor (a)	SunPower	Consolidated
\$ 140,522	\$ 4,615	\$ 145,137
\$ 10,146	\$ (94,424)	\$ (84,278)
\$ 38,252	\$ 199,952	\$ 238,204

(a) Semiconductor includes all Cypress's business segments except for SunPower.

(b) Cash, cash equivalents, and investments included restricted cash totaling \$40.6 million and \$63.3 million as of September 30, 2007 and December 31, 2006, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES*
(In thousands)
(Unaudited)

	THREE MONTHS ENDED						
	September 30, 2007						
	CCD (a)	DCD (a)	MID (a)	Other	Semiconductor (b)	SunPower	Consolidated
GAAP gross margin	\$ 48,725	\$ 18,296	\$ 31,109	\$ (447)	\$ 97,683	\$ 44,316	\$ 141,999
Stock-based compensation expense	1,758	367	1,570	108	3,803	3,588	7,391
Other acquisition-related expense	3	-	-	-	3	-	3
Changes in value of deferred compensation plan	-	-	-	(11)	(11)	-	(11)
Non-GAAP gross margin	\$ 50,486	\$ 18,663	\$ 32,679	\$ (350)	\$ 101,478	\$ 47,904	\$ 149,382

	THREE MONTHS ENDED						
	July 1, 2007						
	CCD (a)	DCD (a)	MID (a)	Other	Semiconductor (b)	SunPower	Consolidated
GAAP gross margin	\$ 39,174	\$ 17,589	\$ 29,156	\$ 350	\$ 86,269	\$ 36,479	\$ 122,748
Stock-based compensation expense	1,307	277	1,531	69	3,184	3,198	6,382
Fair value adjustment to deferred revenue	-	-	-	-	-	309	309
Other acquisition-related expense	4	-	-	-	4	-	4
Changes in value of deferred compensation plan	-	-	-	(9)	(9)	-	(9)
Non-GAAP gross margin	\$ 40,485	\$ 17,866	\$ 30,687	\$ 410	\$ 89,448	\$ 39,986	\$ 129,434

	THREE MONTHS ENDED						
	October 1, 2006						
	CCD (a)	DCD (a)	MID (a)	Other	Semiconductor (b)	SunPower	Consolidated
GAAP gross margin	\$ 40,012	\$ 24,221	\$ 32,668	\$ 10,297	\$ 107,198	\$ 16,360	\$ 123,558
Stock-based compensation expense	1,022	245	1,095	61	2,423	200	2,623
Other acquisition-related expense	5	-	-	-	5	-	5
Changes in value of deferred compensation plan	-	-	-	(266)	(266)	-	(266)
Non-GAAP gross margin	\$ 41,039	\$ 24,466	\$ 33,763	\$ 10,092	\$ 109,360	\$ 16,560	\$ 125,920

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

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

(b) Semiconductor includes all Cypress's business segments except for SunPower.

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

	September 30, 2007			July 1, 2007			October 1, 2006		
	Semiconductor (a)	SunPower	Consolidated	Semiconductor (a)	SunPower	Consolidated	Semiconductor (a)	SunPower	Consolidated
GAAP research and development expenses	\$ 42,740	\$ 3,902	\$ 46,642	\$ 39,916	\$ 2,821	\$ 42,737	\$ 59,110	\$ 2,536	\$ 61,646
Stock-based compensation expense	(4,146)	(404)	(4,550)	(3,915)	(348)	(4,263)	(4,179)	(336)	(4,515)
Other acquisition-related expense	(80)	-	(80)	(86)	-	(86)	(362)	-	(362)
Changes in value of deferred compensation plan	13	-	13	10	-	10	306	-	306
Non-GAAP research and development expense:	\$ 38,527	\$ 3,498	\$ 42,025	\$ 35,925	\$ 2,473	\$ 38,398	\$ 54,875	\$ 2,200	\$ 57,075
GAAP selling, general and administrative expenses	\$ 44,164	\$ 26,761	\$ 70,925	\$ 49,554	\$ 25,158	\$ 74,712	\$ 42,446	\$ 6,206	\$ 48,652
Stock-based compensation expense	(8,806)	(9,372)	(18,178)	(7,288)	(9,684)	(16,972)	(4,537)	(621)	(5,158)
Other acquisition-related expense	(117)	-	(117)	(225)	-	(225)	(230)	-	(230)
Changes in value of deferred compensation plan	10	-	10	8	-	8	234	-	234
Release of allowance for uncollectible employee loans	6,864	-	6,864	-	-	-	-	-	-
Non-GAAP selling, general and administrative expense:	\$ 42,115	\$ 17,389	\$ 59,504	\$ 42,049	\$ 15,474	\$ 57,523	\$ 37,913	\$ 5,585	\$ 43,498
GAAP operating income (loss)	\$ 15,472	\$ 6,795	\$ 22,267	\$ (5,156)	\$ (13,206)	\$ (18,362)	\$ 2,570	\$ 6,442	\$ 9,012
Stock-based compensation expense	16,755	13,364	30,119	14,387	13,230	27,617	11,139	1,157	12,296
Acquisition-related expense:									
Fair value adjustment to deferred revenue	-	-	-	-	309	309	-	-	-
Amortization of acquisition-related intangibles	1,954	6,858	8,812	1,953	7,640	9,593	2,572	1,176	3,748
Impairment of acquisition-related intangibles	-	-	-	-	14,068	14,068	-	-	-
Other acquisition-related expense	200	-	200	315	-	315	597	-	597
Changes in value of deferred compensation plan	(34)	-	(34)	(27)	-	(27)	(806)	-	(806)
Release of allowance for uncollectible employee loans	(6,864)	-	(6,864)	-	-	-	-	-	-
Impairment related to synthetic lease	-	-	-	-	-	-	500	-	500
Gain on divestiture	(6,647)	-	(6,647)	-	-	-	-	-	-
Non-GAAP operating income	\$ 20,836	\$ 27,017	\$ 47,853	\$ 11,472	\$ 22,041	\$ 33,513	\$ 16,572	\$ 8,775	\$ 25,347
GAAP net income (loss)	\$ 25,222	\$ 4,601	\$ 29,823	\$ 366,668	\$ (3,308)	\$ 363,360	\$ 3,510	\$ 7,204	\$ 10,714
Stock-based compensation expense	16,755	13,364	30,119	14,387	13,230	27,617	11,139	1,157	12,296
Acquisition-related expense:									
Fair value adjustment to deferred revenue	-	-	-	-	309	309	-	-	-
Amortization of acquisition-related intangibles	1,954	6,858	8,812	1,953	7,640	9,593	2,572	1,176	3,748
Impairment of acquisition-related intangibles	-	-	-	-	14,068	14,068	-	-	-
Other acquisition-related expense	200	-	200	315	-	315	597	-	597
Changes in value of deferred compensation plan	(34)	-	(34)	(27)	-	(27)	(806)	-	(806)
Release of allowance for uncollectible employee loans	(6,864)	-	(6,864)	-	-	-	-	-	-
Impairment related to synthetic lease	-	-	-	-	-	-	500	-	500
Gain on divestiture	(6,647)	-	(6,647)	-	-	-	-	-	-
Investment-related gains/losses	586	-	586	(372,422)	-	(372,422)	1,139	-	1,139
Related minority interest adjustment and tax effects	(1,453)	(9,646)	(11,099)	4,022	(20,033)	(16,011)	(135)	(428)	(563)
Non-GAAP net income	\$ 29,719	\$ 15,177	\$ 44,896	\$ 14,896	\$ 11,906	\$ 26,802	\$ 18,516	\$ 9,109	\$ 27,625
GAAP net income (loss) per share - diluted	\$ 0.15	\$ 0.03	\$ 0.18	\$ 2.31	\$ (0.02)	\$ 2.29	\$ 0.02	\$ 0.04	\$ 0.06
Stock-based compensation expense	0.11	0.07	0.18	0.08	0.08	0.16	0.07	-	0.07
Acquisition-related expense:									
Fair value adjustment to deferred revenue	-	-	-	-	-	-	-	-	-
Amortization of acquisition-related intangibles	0.01	0.04	0.05	0.01	0.05	0.06	0.01	0.01	0.02
Impairment of acquisition-related intangibles	-	-	-	-	0.09	0.09	-	-	-
Other acquisition-related expense	-	-	-	-	-	-	-	-	-
Changes in value of deferred compensation plan	-	-	-	-	-	-	-	-	-
Release of allowance for uncollectible employee loans	(0.04)	-	(0.04)	-	-	-	-	-	-
Impairment related to synthetic lease	-	-	-	-	-	-	-	-	-
Gain on divestiture	(0.04)	-	(0.04)	-	-	-	-	-	-
Investment-related gains/losses	-	-	-	(2.34)	-	(2.34)	0.01	-	0.01
Related minority interest adjustment and tax effects	(0.01)	(0.06)	(0.07)	0.03	(0.13)	(0.10)	-	-	-
Non-GAAP net income per share - diluted	\$ 0.18	\$ 0.08	\$ 0.26	\$ 0.09	\$ 0.07	\$ 0.16	\$ 0.11	\$ 0.05	\$ 0.16
GAAP shares used in per-share calculation - diluted			165,993			158,857			179,087
Non-GAAP shares used in per-share calculation - diluted (b)			168,267			161,573			180,261

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

(a) Semiconductor includes all Cypress's business segments except for SunPower.

(b) Weighted-average shares used to calculate Non-GAAP diluted earnings per share were computed exclusive of the methodology used to determine dilutive securities under FAS 123R.

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.

Cypress presents each non-GAAP financial measure, including the diluted net income (loss) per share, for the following categories: "Semiconductor," "SunPower," and "Consolidated." SunPower is a majority-owned subsidiary of Cypress and for accounting purposes, Cypress is required to consolidate SunPower's results. Cypress includes two distinct businesses: Semiconductor and SunPower. Semiconductor is Cypress's traditional core semiconductor business. On the other hand, SunPower is a stand-alone, publicly-traded company specializing in solar power products.

Cypress's investment community often views Cypress as two separate entities: Cypress and SunPower, and many Cypress investors have focused on the possibility of a future separation of SunPower and Cypress in evaluating an investment in Cypress. Based on feedback provided by Cypress's investment community to management, these non-GAAP financial measures divided into "Semiconductor" and "SunPower" are beneficial as they allow Cypress's investment community to better understand Cypress's financial performance for the two businesses separately, assess the various methodologies and information used by management to evaluate and measure such performance, and construct their valuation models to better align Cypress's and SunPower's results and projections with their applicable competitors and industries.

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 tables accompanying press release.

As presented in the "Reconciliation of Non-GAAP Financial Measures to 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, the varying methodologies and subjective assumptions used in determining the non-cash expense.
- **Acquisition-related expense.**
Acquisition-related expense includes: (1) fair value adjustment to deferred revenue, which is an adjustment that results in certain revenues never being recognized under GAAP by either the acquiring company or the company being acquired, (2) amortization of intangibles, which include acquired intangibles such as purchased technology, patents and trademarks, (3) impairment of intangibles, which relates to the net book value of the PowerLight tradename being written off in its entirety as a result of the change in branding strategy, 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. In addition, in all cases, the frequency and amount of such charges can vary significantly based on the size and timing of acquisitions and the maturities of the businesses being acquired. 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.
- **Release of allowance for uncollectible employee loans.**
The allowance for uncollectible employee loans is related to outstanding employee loans under Cypress's stock purchase assistance plan. During the third quarter of fiscal 2007, management released a portion of the allowance based on a review of the status of the outstanding loans. Management excludes this non-cash benefit from the non-GAAP measures because it does not relate to Cypress's core business or impact its operating performance. Adjustment of this item allows investors to better compare Cypress's period-over-period operating results.
- **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.

- **Gains on divestitures.**

Cypress recognizes gains resulting from the exiting of certain non-strategic businesses 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.
- **Impairment related to the synthetic lease.**

Cypress recognized impairment losses related to its synthetic lease as it determined the fair value of the properties under the synthetic lease was less than the carrying value. This item is excluded from non-GAAP financial measures because it is a non-cash expense that is not considered a core operating activity. As such, management believes that it is appropriate to exclude the impairment from Cypress's non-GAAP financial measures, as it enhances the ability of investors to compare Cypress's period-over-period operating results.
- **Investment-related gains/losses.**

Cypress recognizes an impairment loss related to its investment when it determines the decline in fair value is other-than-temporary in nature. This item is excluded from non-GAAP financial measures because it is a non-cash expense that is not considered a core operating activity, and such losses have not historically occurred in every quarter. In addition, investment-related gains/losses include gains/losses related to the sales of certain of its investments, such as the sale of its investment in SunPower in the second quarter of fiscal 2007. Management believes that such one-time gains/losses on the sales of Cypress's investments are not related to the ongoing business and operating performance of Cypress. 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.
- **Related minority interest adjustment and tax effect.**

Cypress adjusts for the minority interest impact and the income tax effect resulting from the non-GAAP adjustments as described above.