

**Cypress Semiconductor Corporation**  
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**Q2 2005**

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**CYPRESS SEMICONDUCTOR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	<b>THREE MONTHS ENDED</b>			<b>SIX MONTHS ENDED</b>	
	<b>(Unaudited)</b>			<b>(Unaudited)</b>	
	Jul 03 2005	Jun 27 2004	Apr 03 2005	Jul 03 2005	Jun 27 2004
Revenues	\$ 220,506	\$ 264,269	\$ 200,304	\$ 420,810	\$ 518,662
Costs of revenues	129,556	124,855	126,649	256,205	248,215
Gross margin	90,950	139,414	73,655	164,605	270,447
Operating expenses:					
Research and development	57,043	66,797	58,040	115,083	129,955
Selling, general and administrative	36,791	38,823	38,409	75,200	67,519
Amortization of intangibles	7,113	9,607	8,400	15,513	19,798
In-process research and development charge	-	-	12,300	12,300	-
Restructuring costs (credits)	4,986	-	22,709	27,695	(81)
Total operating costs	105,933	115,227	139,858	245,791	217,191
Operating income (loss)	(14,983)	24,187	(66,203)	(81,186)	53,256
Net interest expense and other	(792)	(679)	(2,282)	(3,074)	(1,427)
Income (loss) before income tax	(15,775)	23,508	(68,485)	(84,260)	51,829
Income tax (provision) benefit	521	(1,528)	(311)	210	(3,369)
Net income (loss)	<u>\$ (15,254)</u>	<u>\$ 21,980</u>	<u>\$ (68,796)</u>	<u>\$ (84,050)</u>	<u>\$ 48,460</u>
Basic net income (loss) per share	\$ (0.12)	\$ 0.18	\$ (0.53)	\$ (0.64)	\$ 0.39
Diluted net income (loss) per share	\$ (0.12)	\$ 0.13	\$ (0.53)	\$ (0.64)	\$ 0.30
Shares used in calculation:					
Basic	132,081	123,366	130,506	131,293	122,892
Diluted	132,081	167,467	130,506	131,293	169,649

Prepared in accordance with GAAP.

**CYPRESS SEMICONDUCTOR CORPORATION**  
**ADJUSTED-GAAP CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	<b>THREE MONTHS ENDED</b>			<b>SIX MONTHS ENDED</b>	
	<b>(Unaudited)</b>			<b>(Unaudited)</b>	
	Jul 03 2005	Jun 27 2004	Apr 03 2005	Jul 03 2005	Jun 27 2004
Revenues	\$ 220,506	\$ 264,269	\$ 200,304	\$ 420,810	\$ 518,662
Costs of revenues	129,417	124,804	126,530	255,948	248,164
Gross margin	91,089	139,465	73,774	164,862	270,498
Operating expenses:					
Research and development	55,139	63,918	58,748	113,886	124,309
Selling, general and administrative	36,553	36,818	38,309	74,862	73,266
Total operating costs	91,692	100,736	97,057	188,748	197,575
Operating income (loss)	(603)	38,729	(23,283)	(23,886)	72,923
Net interest expense and other	(516)	(918)	(1,861)	(2,377)	(2,088)
Income (loss) before income tax	(1,119)	37,811	(25,144)	(26,263)	70,835
Income tax (provision) benefit	(690)	(1,891)	-	(690)	(3,542)
Net income (loss)	<u>\$ (1,809)</u>	<u>\$ 35,920</u>	<u>\$ (25,144)</u>	<u>\$ (26,953)</u>	<u>\$ 67,293</u>
Basic net income (loss) per share	\$ (0.01)	\$ 0.29	\$ (0.19)	\$ (0.21)	\$ 0.55
Diluted net income (loss) per share	\$ (0.01)	\$ 0.23	\$ (0.19)	\$ (0.21)	\$ 0.42
Shares used in calculation:					
Basic	132,081	123,366	130,506	131,293	122,892
Diluted	132,081	167,467	130,506	131,293	169,649

See accompanying reconciliation of GAAP measures to adjusted-GAAP measures and related footnotes.

**CYPRESS SEMICONDUCTOR CORPORATION**  
**RECONCILIATION OF GAAP MEASURES TO ADJUSTED-GAAP MEASURES**  
(In thousands)

	THREE MONTHS ENDED (Unaudited)			SIX MONTHS ENDED (Unaudited)	
	Jul 03, 2005	Jun 27 2004	Apr 03 2005	Jul 03 2005	Jun 27 2004
Revenues					
GAAP	\$ 220,506	\$ 264,269	\$ 200,304	\$ 420,810	\$ 518,662
Adjustments	-	-	-	-	-
Adjusted-GAAP	220,506	264,269	200,304	420,810	518,662
Costs of revenues					
GAAP	129,556	124,855	126,649	256,205	248,215
Acquisition and stock compensation expenses	(139)	(51)	(119)	(257)	(51)
Adjusted-GAAP (1)	129,417	124,804	126,530	255,948	248,164
Gross margin					
GAAP	90,950	139,414	73,655	164,605	270,447
Acquisition and stock compensation expenses	139	51	119	257	51
Adjusted-GAAP (1)	91,089	139,465	73,774	164,862	270,498
Research and development					
GAAP	57,043	66,797	58,040	115,083	129,955
Acquisition and stock compensation expenses	(1,700)	(2,879)	912	(789)	(5,646)
Synthetic lease - guarantee accrual	(204)	-	(204)	(408)	-
Adjusted-GAAP (2)	55,139	63,918	58,748	113,886	124,309
Selling, general and administrative					
GAAP	36,791	38,823	38,409	75,200	67,519
Acquisition and stock compensation expenses	(138)	(5)	-	(137)	(5)
Synthetic lease - guarantee accrual	(100)	-	(100)	(201)	-
Employee loan reserve	-	-	-	-	7,752
Damages claim	-	(2,000)	-	-	(2,000)
Adjusted-GAAP (2)	36,553	36,818	38,309	74,862	73,266
Amortization of intangibles					
GAAP	7,113	9,607	8,400	15,513	19,798
Amortization of intangibles	(7,113)	(9,607)	(8,400)	(15,513)	(19,798)
Adjusted-GAAP (3)	-	-	-	-	-
In-process research and development charge					
GAAP	-	-	12,300	12,300	-
In-process research and development charge	-	-	(12,300)	(12,300)	-
Adjusted-GAAP (3)	-	-	-	-	-
Restructuring costs (credits)					
GAAP	4,986	-	22,709	27,695	(81)
Restructuring costs	(4,986)	-	(22,709)	(27,695)	81
Adjusted-GAAP (3)	-	-	-	-	-
Total operating costs					
GAAP	105,933	115,227	139,858	245,791	217,191
Adjustments to GAAP indicated in footnotes (2) and (3)	(14,241)	(14,491)	(42,801)	(57,043)	(19,616)
Adjusted-GAAP (4)	91,692	100,736	97,057	188,748	197,575
Operating income (loss)					
GAAP	(14,983)	24,187	(66,203)	(81,186)	53,256
Adjustments to GAAP indicated in footnotes (1) to (3)	14,380	14,542	42,920	57,300	19,667
Adjusted-GAAP (5)	(603)	38,729	(23,283)	(23,886)	72,923
Net interest expense and other					
GAAP	(792)	(679)	(2,282)	(3,074)	(1,427)
Impairments and other	276	(239)	421	697	(661)
Adjusted-GAAP (6)	(516)	(918)	(1,861)	(2,377)	(2,088)
Income (loss) before income tax					
GAAP	(15,775)	23,508	(68,485)	(84,260)	51,829
Adjustments to GAAP indicated in footnotes (1) to (3) and (6)	14,656	14,303	43,341	57,997	19,006
Adjusted-GAAP (7)	(1,119)	37,811	(25,144)	(26,263)	70,835
Income tax (provision) benefit					
GAAP	521	(1,528)	(311)	210	(3,369)
Tax effects on adjusted-GAAP adjustments	(1,211)	(363)	311	(900)	(173)
Adjusted-GAAP (8)	(690)	(1,891)	-	(690)	(3,542)
Net income (loss)					
GAAP	(15,254)	21,980	(68,796)	(84,050)	48,460
Adjustments to GAAP indicated in footnotes (1) to (3), (6) and (8)	13,445	13,940	43,652	57,097	18,833
Adjusted-GAAP (9)	\$ (1,809)	\$ 35,920	\$ (25,144)	\$ (26,953)	\$ 67,293

## Footnotes to Reconciliation of GAAP Measures to Adjusted-GAAP Measures

To supplement the consolidated financial results prepared under GAAP, Cypress uses adjusted-GAAP results which are adjusted from the most directly comparable GAAP-based results to exclude certain charges as described below. Management does not consider these charges part of the day-to-day business or core operational activities of the Company as they result from corporate transactions outside the ordinary course of business. Management uses these adjusted-GAAP measures internally for strategic decision making, forecasting future results and evaluating the Company's current performance. Most analysts covering Cypress use these adjusted-GAAP measures as well. Given management's use of each of these adjusted-GAAP measures, Cypress believes these measures are important to investors in understanding the Company's current and future operating results as seen through the eyes of management. In addition, management believes these adjusted-GAAP measures are useful to investors in enabling them to better assess changes in Cypress's core business across different time periods. These adjusted-GAAP measures are not in accordance with, or an alternative for, GAAP and may be different from adjusted-GAAP measures used by other companies.

### Explanations of adjusted-GAAP measures:

(1) Cost of revenues and gross margin:

These adjusted-GAAP measures exclude acquisition-related and stock-based compensation expenses. Excluding these charges prevents them from obscuring Cypress's core cost structure that varies directly in relation to changes in revenues.

(2) Research and development, and selling, general and administrative:

These adjusted-GAAP measures exclude acquisition-related and stock-based compensation expenses, employee loan reserve, charges relating to certain damage claim settlement and impairment related to off-balance sheet operating lease guarantee. Excluding these items identifies and provides important insights into what management believes to be the core operational costs of developing and maintaining new products and services, as well as Cypress's sales and administrative cost structure.

(3) Amortization of intangibles, in-process research and development charge and restructuring:

These adjusted-GAAP measures exclude amortization of intangibles and in-process research and development charges from acquisitions, and restructuring as a result of decisions by management to exit certain activities. Although all such events have occurred in the past and may occur again in the future, for internal analysis of the Company's core operations, management does not view these expenses as ongoing for the business or reflective of the business's current performance.

**Footnotes to Reconciliation of GAAP Measures to Adjusted-GAAP Measures  
(Continued)**

(4) Total operating costs:

This adjusted-GAAP measure excludes items as discussed in (2) and (3) above. Excluding these items provides important insights into Cypress's overall core ongoing operating expenses.

(5) Operating income (loss):

This adjusted-GAAP measure excludes items as discussed in (1) to (3) above. Excluding these items provides important insights into Cypress's overall core operating profitability before taking into account costs or income associated with Cypress's capital structure such as interest as well as income tax and other income and expenses.

(6) Net interest expense and other:

This adjusted-GAAP measure excludes gain (loss) on investments, impairment and other charges. This adjusted-GAAP measure provides important insights into income and costs associated with Cypress's ongoing borrowings, cash position and other non-operational activities.

(7) Income (loss) before income tax:

This adjusted-GAAP measure excludes items as discussed in (1) to (3) and (6) above. This adjusted-GAAP measure provides important insights into Cypress's core profitability without regard for tax effects.

(8) Income tax (provision) benefit:

This adjusted-GAAP measure excludes the tax impact on the transactions which have been excluded from GAAP as discussed in (1) to (3) and (6) above. This adjusted-GAAP measure provides insights into the applicable taxes on Cypress's core operating results.

(9) Net income (loss):

This adjusted-GAAP measure reflects the after-tax impact of excluding the items as discussed in (1) to (3), (6) and (8) above. This adjusted-GAAP measure provides important insights into Cypress's core and ongoing results of operations after taking into account the impact of applicable taxes. This measure is used by management to make strategic decisions on the Company's core operations and future performance.