

Cypress Semiconductor Corporation
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Q4 2005

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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	
	Jan 1, 2006	Jan 2, 2005	Oct 2, 2005	Jan 1, 2006	Jan 2, 2005
Revenues	\$ 238,473	\$ 210,181	\$ 227,112	\$ 886,396	\$ 948,438
Costs of revenues	140,779	131,442	131,673	528,657	492,058
Gross margin	97,694	78,739	95,439	357,739	456,380
Operating expenses:					
Research and development	55,609	66,910	56,068	226,760	261,629
Selling, general and administrative	40,796	37,041	40,045	156,041	141,799
Amortization of intangibles	5,692	9,361	6,504	27,709	38,898
In-process research and development charge	-	-	-	12,300	15,600
Restructuring costs (credits)	(982)	243	713	27,426	(164)
Total operating costs	101,115	113,555	103,330	450,236	457,762
Operating loss	(3,421)	(34,816)	(7,891)	(92,497)	(1,382)
Net interest income (expense) and other	501	3,402	1,853	(720)	(495)
Loss before income tax and minority interest	(2,920)	(31,414)	(6,038)	(93,217)	(1,877)
Income tax benefit	1,037	3,316	92	1,339	26,575
Minority interest, net of tax	(275)	-	-	(275)	-
Net income (loss)	<u>\$ (2,158)</u>	<u>\$ (28,098)</u>	<u>\$ (5,946)</u>	<u>\$ (92,153)</u>	<u>\$ 24,698</u>
Basic net income (loss) per share	\$ (0.02)	\$ (0.22)	\$ (0.04)	\$ (0.69)	\$ 0.20
Diluted net income (loss) per share	\$ (0.02)	\$ (0.22)	\$ (0.04)	\$ (0.69)	\$ 0.17
Shares used in calculation:					
Basic	135,990	127,362	134,175	133,188	124,580
Diluted	136,200	127,362	134,175	133,188	134,130

Prepared in accordance with GAAP

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(On an adjusted-GAAP basis)
(In thousands, except per share data)

(Unaudited)

	<u>THREE MONTHS ENDED</u>			<u>TWELVE MONTHS ENDED</u>	
	Jan 1, 2006	Jan 2, 2005	Oct 2, 2005	Jan 1, 2006	Jan 2, 2005
Revenues	\$ 238,473	\$ 210,181	\$ 227,112	\$ 886,396	\$ 948,438
Costs of revenues	140,478	131,374	131,572	527,998	491,910
Gross margin	97,995	78,807	95,540	358,398	456,528
Operating expenses:					
Research and development	54,246	64,597	55,216	223,349	251,489
Selling, general and administrative	39,451	36,276	37,981	152,294	146,782
Total operating costs	93,697	100,873	93,197	375,643	398,271
Operating income (loss)	4,298	(22,066)	2,343	(17,245)	58,257
Net interest income (expense) and other	1,331	2,482	1,853	807	(732)
Income (loss) before income tax and minority interest	5,629	(19,584)	4,196	(16,438)	57,525
Income tax (provision) benefit	557	1,558	(348)	(481)	25,807
Minority interest, net of tax	(417)	-	-	(417)	-
Net income (loss)	<u>\$ 5,769</u>	<u>\$ (18,026)</u>	<u>\$ 3,848</u>	<u>\$ (17,336)</u>	<u>\$ 83,332</u>
Basic net income (loss) per share	\$ 0.04	\$ (0.14)	\$ 0.03	\$ (0.13)	\$ 0.67
Diluted net income (loss) per share	\$ 0.04	\$ (0.14)	\$ 0.03	\$ (0.13)	\$ 0.55
Shares used in calculation:					
Basic	135,990	127,362	134,175	133,188	124,580
Diluted	143,155	127,362	142,403	133,188	167,234

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)

(Unaudited)

	THREE MONTHS ENDED			TWELVE MONTHS	
	Jan 1, 2006	Jan 2, 2005	Oct 2, 2005	Jan 1, 2006	Jan 2, 2005
Revenues					
GAAP	\$ 238,473	\$ 210,181	\$ 227,112	\$ 886,396	\$ 948,438
Adjustments	-	-	-	-	-
Adjusted-GAAP	238,473	210,181	227,112	886,396	948,438
Costs of revenues					
GAAP	140,779	131,442	131,673	528,657	492,058
Acquisition and stock compensation expenses	(301)	(68)	(101)	(659)	(148)
Adjusted-GAAP (1)	140,478	131,374	131,572	527,998	491,910
Gross margin					
GAAP	97,694	78,739	95,439	357,739	456,380
Acquisition and stock compensation expenses	301	68	101	659	148
Adjusted-GAAP (1)	97,995	78,807	95,540	358,398	456,528
Research and development					
GAAP	55,609	66,910	56,068	226,760	261,629
Acquisition and stock compensation expenses	(1,159)	(1,089)	(648)	(2,595)	(8,916)
Synthetic lease - guarantee accrual	(204)	(1,224)	(204)	(816)	(1,224)
Adjusted-GAAP (2)	54,246	64,597	55,216	223,349	251,489
Selling, general and administrative					
GAAP	40,796	37,041	40,045	156,041	141,799
Acquisition and stock compensation expenses	(1,244)	(164)	(1,964)	(3,346)	(168)
Synthetic lease - guarantee accrual	(101)	(601)	(100)	(401)	(601)
Employee loan reserve	-	-	-	-	7,752
Damages claim	-	-	-	-	(2,000)
Adjusted-GAAP (2)	39,451	36,276	37,981	152,294	146,782
Amortization of intangibles					
GAAP	5,692	9,361	6,504	27,709	38,898
Amortization of intangibles	(5,692)	(9,361)	(6,504)	(27,709)	(38,898)
Adjusted-GAAP (3)	-	-	-	-	-
In-process research and development charge					
GAAP	-	-	-	12,300	15,600
In-process research and development charge	-	-	-	(12,300)	(15,600)
Adjusted-GAAP (3)	-	-	-	-	-
Restructuring costs (credits)					
GAAP	(982)	243	713	27,426	(164)
Restructuring costs	982	(243)	(713)	(27,426)	164
Adjusted-GAAP (3)	-	-	-	-	-
Total operating costs					
GAAP	101,115	113,555	103,330	450,236	457,762
Adjustments to GAAP indicated in footnotes (2) and (3)	(7,418)	(12,682)	(10,133)	(74,593)	(59,491)
Adjusted-GAAP (4)	93,697	100,873	93,197	375,643	398,271
Operating income (loss)					
GAAP	(3,421)	(34,816)	(7,891)	(92,497)	(1,382)
Adjustments to GAAP indicated in footnotes (1) to (3)	7,719	12,750	10,234	75,252	59,639
Adjusted-GAAP (5)	4,298	(22,066)	2,343	(17,245)	58,257
Net interest income (expense) and other					
GAAP	501	3,402	1,853	(720)	(495)
Impairments and other	830	(920)	-	1,527	(237)
Adjusted-GAAP (6)	1,331	2,482	1,853	807	(732)
Income (loss) before income tax and minority interest					
GAAP	(2,920)	(31,414)	(6,038)	(93,217)	(1,877)
Adjustments to GAAP indicated in footnotes (1) to (3) and (6)	8,549	11,830	10,234	76,779	59,402
Adjusted-GAAP (7)	5,629	(19,584)	4,196	(16,438)	57,525
Income tax (provision) benefit					
GAAP	1,037	3,316	92	1,339	26,575
Tax effects on adjusted-GAAP adjustments	(480)	(1,758)	(440)	(1,820)	(768)
Adjusted-GAAP (8)	557	1,558	(348)	(481)	25,807
Minority interest, net of tax					
GAAP	(275)	-	-	(275)	-
Minority interest, net of tax	(142)	-	-	(142)	-
Adjusted-GAAP (9)	(417)	-	-	(417)	-
Net income (loss)					
GAAP	(2,158)	(28,098)	(5,946)	(92,153)	24,698
Adjustments to GAAP indicated in footnotes (1) to (3), (6), (8) and (9)	7,927	10,072	9,794	74,817	58,634
Adjusted-GAAP (10)	\$ 5,769	\$ (18,026)	\$ 3,848	\$ (17,336)	\$ 83,332

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 Cypress 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 losses related to off-balance sheet synthetic lease guarantee. Excluding these items identifies and provides important insights into what management believes to be the core operational costs of developing new products and services, as well as Cypress's core sales, marketing 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 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 operations before taking into account costs or income associated with Cypress's capital structure such as interest as well as income tax, other income and expenses and minority interest.
- (6) Net interest income (expense) and other:
This adjusted-GAAP measure excludes investment 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) Loss before income tax and minority interest:
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 operating results without regard for tax effects and minority interest.
- (8) Income tax benefit:
This adjusted-GAAP measure excludes the tax impact on the transactions that 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) Minority interest, net of tax:
This adjusted-GAAP measure excludes a portion of the minority interest relating to SunPower's acquisition-related and stock-based compensation expenses. This adjusted-GAAP measure provides insights into minority interest associated with SunPower's core operations.
- (10) Net income (loss):
This adjusted-GAAP measure reflects the after-tax impact of excluding the items as discussed in (1) to (3), (6), (8) and (9) 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.