

**Cypress Semiconductor Corporation**  
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**Q2 2006**

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**CYPRESS SEMICONDUCTOR CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per-share data)

(Unaudited)

	July 2, 2006	January 1, 2006
<b>ASSETS</b>		
Cash, cash equivalents and investments ( a )	\$ 680,734	\$ 393,788
Accounts receivable, net	177,830	151,213
Inventories	95,871	73,573
Property and equipment, net	474,142	464,656
Goodwill and other intangible assets	406,033	459,496
Other assets	179,574	155,148
Total assets	<u>\$ 2,014,184</u>	<u>\$ 1,697,874</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 186,818	\$ 164,066
Deferred income	54,938	29,404
Convertible subordinated notes	598,997	599,997
Income tax liabilities	57,541	59,590
Other liabilities	48,369	49,378
Total liabilities	946,663	902,435
Minority interest	113,270	38,304
Stockholders' equity ( b )	954,251	757,135
Total liabilities and stockholders' equity	<u>\$ 2,014,184</u>	<u>\$ 1,697,874</u>

( a ) Cash, cash equivalents and investments included restricted cash totaling \$63.4 million and \$63.5 million as of July 2, 2006 and January 1, 2006, respectively.

( b ) Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 140,941 and 137,036 shares outstanding as of July 2, 2006 and January 1, 2006, respectively.

**CYPRESS SEMICONDUCTOR CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(ON A GAAP BASIS)**

(In thousands, except per-share data)

(Unaudited)

	THREE MONTHS ENDED		
	July 2, 2006	July 3, 2005	April 2, 2006
Revenues	\$ 265,236	\$ 220,506	\$ 249,137
Cost of revenues ( a )	151,343	129,556	145,725
Gross margin	113,893	90,950	103,412
Operating expenses:			
Research and development ( a )	61,598	57,043	62,666
Selling, general and administrative ( a )	43,563	36,791	44,920
Amortization of intangibles	3,937	7,113	4,450
Restructuring costs (credits) ( a )	(113)	4,986	602
Gain on sale of NSE assets	-	-	(5,998)
Total operating costs	108,985	105,933	106,640
Operating income (loss)	4,908	(14,983)	(3,228)
Net interest income (expense) and other	3,197	(792)	12,009
Income (loss) before income tax and minority interest	8,105	(15,775)	8,781
Income tax (provision) benefit	(1,119)	521	(1,663)
Minority interest, net of tax	(1,139)	-	(37)
Net income (loss)	\$ 5,847	\$ (15,254)	\$ 7,081
Basic net income (loss) per share	\$ 0.04	\$ (0.12)	\$ 0.05
Diluted net income (loss) per share	\$ 0.04	\$ (0.12)	\$ 0.05
Shares used in per-share calculation:			
Basic	139,989	132,081	138,330
Diluted	145,306	132,081	144,915
( a ) includes the following stock-based compensation expense:			
Cost of revenues	\$ 2,877	\$ 6	\$ 917
Research and development	4,354	489	4,716
Selling, general and administrative	4,758	75	5,072
Restructuring	-	3,043	-

( a ) Prior to January 2, 2006, Cypress accounted for stock-based compensation expense under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and the related interpretation. In accordance with APB 25, Cypress historically used the intrinsic value method to account for stock-based compensation expense. As of January 2, 2006, Cypress accounts for stock-based compensation expense under Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). As Cypress adopted the modified prospective application method under SFAS 123(R), results for prior periods have not been restated.

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

(Unaudited)

	<b>THREE MONTHS ENDED</b>		
	<b>July 2, 2006</b>	<b>July 3, 2005</b>	<b>April 2, 2006</b>
Revenues	\$ 265,236	\$ 220,506	\$ 249,137
Costs of revenues	148,494	129,417	144,815
Gross margin	116,742	91,089	104,322
Operating expenses:			
Research and development	55,618	55,139	56,169
Selling, general and administrative	38,354	36,553	39,397
Total operating costs	93,972	91,692	95,566
Operating income (loss)	22,770	(603)	8,756
Net interest income (expense) and other	3,218	(516)	2,823
Income (loss) before income tax and minority interest	25,988	(1,119)	11,579
Income tax provision	(2,566)	(690)	(1,149)
Minority interest, net of tax	(1,526)	-	(410)
Net income (loss)	<u>\$ 21,896</u>	<u>\$ (1,809)</u>	<u>\$ 10,020</u>
Basic net income (loss) per share	\$ 0.16	\$ (0.01)	\$ 0.07
Diluted net income (loss) per share	\$ 0.13	\$ (0.01)	\$ 0.07
Shares used in per-share calculation:			
Basic	139,989	132,081	138,330
Diluted	178,910	132,081	178,724

- A reconciliation of GAAP to adjusted-GAAP is presented on the following page.
- Cypress' adjusted-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from those used by other companies.

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

(Unaudited)

	THREE MONTHS ENDED			THREE MONTHS ENDED			THREE MONTHS ENDED		
	July 2, 2006			July 3, 2005			April 2, 2006		
	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP
Revenues	\$ 265,236	\$ -	\$ 265,236	\$ 220,506	\$ -	\$ 220,506	\$ 249,137	\$ -	\$ 249,137
Cost of revenues	151,343	(2,849) ( a )	148,494	129,556	(139) ( g )	129,417	145,725	(910) ( k )	144,815
Gross margin	113,893	2,849	116,742	90,950	139	91,089	103,412	910	104,322
Operating expenses:									
Research and development	61,598	(5,980) ( b )	55,618	57,043	(1,904) ( h )	55,139	62,666	(6,497) ( l )	56,169
Selling, general and administrative	43,563	(5,209) ( c )	38,354	36,791	(238) ( i )	36,553	44,920	(5,523) ( m )	39,397
Amortization of intangibles	3,937	(3,937) ( d )	-	7,113	(7,113) ( d )	-	4,450	(4,450) ( d )	-
Restructuring costs (credits)	(113)	113 ( e )	-	4,986	(4,986) ( e )	-	602	(602) ( e )	-
Gain on sale of NSE assets	-	-	-	-	-	-	(5,998)	5,998 ( n )	-
Total operating costs	108,985	(15,013)	93,972	105,933	(14,241)	91,692	106,640	(11,074)	95,566
Operating Income (loss)	4,908	17,862	22,770	(14,983)	14,380	(603)	(3,228)	11,984	8,756
Net interest income (expense) and other	3,197	21 ( f )	3,218	(792)	276 ( j )	(516)	12,009	(9,186) ( o )	2,823
Income (loss) before income tax and minority interest	8,105	17,883	25,988	(15,775)	14,656	(1,119)	8,781	2,798	11,579
Income tax (provision) benefit	(1,119)	(1,447) ( p )	(2,566)	521	(1,211) ( p )	(690)	(1,663)	514 ( p )	(1,149)
Minority interest, net of tax	(1,139)	(387) ( q )	(1,526)	-	-	-	(37)	(373) ( q )	(410)
Net income (loss)	\$ 5,847	\$ 16,049	\$ 21,896	\$ (15,254)	\$ 13,445	\$ (1,809)	\$ 7,081	\$ 2,939	\$ 10,020
Basic net income (loss) per share	\$ 0.04		\$ 0.16	\$ (0.12)		\$ (0.01)	\$ 0.05		\$ 0.07
Diluted net income (loss) per share	\$ 0.04		\$ 0.13	\$ (0.12)		\$ (0.01)	\$ 0.05		\$ 0.07
Shares used in per-share calculation:									
Basic	139,989		139,989	132,081		132,081	138,330		138,330
Diluted	145,306		178,910	132,081		132,081	144,915		178,724

- ( a ) Includes acquisition-related expense of \$17, stock-based compensation expense of \$2,877, and a credit of \$(45) related to changes in value of the key employee deferred compensation plan for the three months ended July 2, 2006.
- ( b ) Includes acquisition-related expense of \$1,342, stock-based compensation expense of \$4,354, synthetic lease loss accrual of \$335, and a credit of \$(51) related to changes in value of the key employee deferred compensation plan for the three months ended July 2, 2006.
- ( c ) Includes acquisition-related expense of \$325, stock-based compensation expense of \$4,758, synthetic lease loss accrual of \$165, and a credit of \$(39) related to changes in value of the key employee deferred compensation plan for the three months ended July 2, 2006.
- ( d ) Includes amortization of intangibles of \$3,937 for the three months ended July 2, 2006, \$7,113 for the three months ended July 3, 2005, and \$4,450 for the three months ended April 2, 2006.
- ( e ) Includes restructuring credits of \$(113) for the three months ended July 2, 2006, restructuring costs of \$4,986 for the three months ended July 3, 2005, and restructuring costs of \$602 for the three months ended April 2, 2006.
- ( f ) Includes an investment-related charge of \$21 for the three months ended July 2, 2006.
- ( g ) Includes acquisition-related and other expense of \$133 and stock-based compensation expense of \$6 for the three months ended July 3, 2005.
- ( h ) Includes acquisition-related and other expense of \$1,211, stock-based compensation expense of \$489, and synthetic lease loss accrual of \$204 for the three months ended July 3, 2005.
- ( i ) Includes acquisition-related and other expense of \$63, stock-based compensation expense of \$75 and synthetic lease loss accrual of \$100 for the three months ended July 3, 2005.
- ( j ) Includes investment-related impairment and other charges of \$276 for the three months ended July 3, 2005.
- ( k ) Includes acquisition-related expense of \$19, stock-based compensation expense of \$917, and a credit of \$(26) related to changes in value of the key employee deferred compensation plan for the three months ended April 2, 2006.
- ( l ) Includes acquisition-related expense of \$1,476, stock-based compensation expense of \$4,716, synthetic lease loss accrual of \$335, and a credit of \$(30) related to changes in value of the key employee deferred compensation plan for the three months ended April 2, 2006.
- ( m ) Includes acquisition-related expense of \$308, stock-based compensation expense of \$5,072, synthetic lease loss accrual of \$165, and a credit of \$(22) related to changes in value of the key employee deferred compensation plan for the three months ended April 2, 2006.
- ( n ) Includes gain on sale of NSE assets of \$(5,998) for the three months ended April 2, 2006.
- ( o ) Includes investment-related gain and other credits of \$(10,028) and investment impairment and other charges of \$842 for the three months ended April 2, 2006.
- ( p ) Includes tax effect on adjusted-GAAP adjustments of \$1,447 for the three months ended July 2, 2006, \$1,211 for the three months ended July 3, 2005, and \$(514) for the three months ended April 2, 2006.
- ( q ) Includes minority interest adjustments of \$387 for the three months ended July 2, 2006 and \$373 for the three months ended April 2, 2006.

**CYPRESS SEMICONDUCTOR CORPORATION**  
**SUPPLEMENTAL SEGMENT AND GROSS MARGIN INFORMATION**  
(In thousands, except per-share and percentage data)

(Unaudited)

**Segment Information:**

	THREE MONTHS ENDED July 2, 2006					
	CCD ( a )	DCD ( a )	MID ( a )	SunPower	Other	Total
Revenues	\$ 75,420	\$ 35,823	\$ 88,461	\$ 54,695	\$ 10,837	\$ 265,236
Adjusted-GAAP gross margin %	49.8%	66.9%	38.6%	23.5%	76.3%	44.0%
Adjusted-GAAP basic net income (loss) per share contribution ( b )	\$ 0.02	\$ 0.06	\$ 0.05	\$ 0.04	\$ (0.01)	\$ 0.16
Adjusted-GAAP diluted net income (loss) per share contribution ( b )	\$ 0.02	\$ 0.05	\$ 0.04	\$ 0.03	\$ (0.01)	\$ 0.13

**Reconciliation of GAAP Consolidated Gross Margin to Adjusted-GAAP Consolidated Gross Margin:**

GAAP consolidated gross margin	
Reconciling items: ( c )	
Acquisition-related expense	
Credits related to changes in value of the key employee deferred compensation plan	
Stock-based compensation expense	
Adjusted-GAAP consolidated gross margin	

THREE MONTHS ENDED July 2, 2006	
\$ 113,893	42.9%
17	
(45)	
2,877	
<u>\$ 116,742</u>	<u>44.0%</u>

**Reconciliation of GAAP Consolidated Gross Margin to Adjusted-GAAP Semiconductor Gross Margin:**

GAAP consolidated gross margin	
Less: GAAP SunPower gross margin	
Amortization of SunPower's intangibles	
GAAP semiconductor gross margin	
Reconciling items:	
Acquisition-related expense	
Credits related to changes in value of the key employee deferred compensation plan	
Stock-based compensation expense	
Adjusted-GAAP semiconductor gross margin	

THREE MONTHS ENDED July 2, 2006	
\$ 113,893	42.9%
(11,447)	
(1,175)	
101,271	
17	
(45)	
2,643	
<u>\$ 103,886</u>	<u>49.3%</u>

- ( a ) CCD represents our Consumer and Computation Division; DCD represents our Data Communications Division; MID represents our Memory and Imaging Division.
- ( b ) Adjusted-GAAP net income (loss) per share by segment is calculated using the diluted weighted average share count utilized for the consolidated reported results. Management evaluates the company utilizing the same weighted-average share count as utilized for consolidated reporting purposes.
- ( c ) The Company does not generally allocate GAAP reconciling items, such as stock-based compensation expense, to the segments. Management uses the adjusted-GAAP measures internally for strategic decision making, forecasting future results and evaluating the Company's current performance. These adjusted-GAAP measures exclude the GAAP items listed within the reconciling section and are not allocated to the segments as management does not evaluate the Company including these GAAP measures. In addition, the adjusted-GAAP EPS by segment is calculated utilizing the consolidated weighted average share count used for consolidated adjusted-GAAP EPS - see (b) above. As such, there is not a directly comparable GAAP measure for the segment adjusted-GAAP EPS and one is not presented. The most directly comparable GAAP measure is at the consolidated results level which is presented above.

## **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:

#### Cost of revenues and gross margin (a) (g) (k):

These adjusted-GAAP measures exclude primarily acquisition-related and stock-based compensation expenses. Excluding these charges provides insights into Cypress's core cost structure that varies directly in relation to changes in revenues.

#### Research and development, and selling, general and administrative (b) (c) (h) (i) (l) (m):

These adjusted-GAAP measures exclude primarily acquisition-related and stock-based compensation expenses, and loss accrual related to the off-balance sheet synthetic lease. Excluding these items identifies and provides important insights into what management believes to be the core operational costs of developing new products, as well as Cypress's core selling, marketing and administrative cost structure.

#### Amortization of intangibles and restructuring (d) (e):

These adjusted-GAAP measures exclude amortization of intangibles and restructuring-related charges as a result of decisions by management to exit certain activities. 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 performance.

#### Gain on sale of NSE assets (n):

This adjusted-GAAP measure excludes the gain resulted from the sale of certain assets in Cypress's NSE product line. The gain was excluded as the sale was a non-recurring transaction and it was not considered a part of Cypress's core operations.

#### Net interest income (expense) and other (f) (j) (o):

This adjusted-GAAP measure primarily excludes investment-related gains and charges. This adjusted-GAAP measure provides important insights into income and costs associated with Cypress's ongoing borrowings, cash position, investment and other non-operational activities.

Income tax (provision) benefit (p):

This adjusted-GAAP measure excludes the tax impact on the transactions that have been excluded from GAAP as discussed above. This adjusted-GAAP measure provides insights into the applicable taxes on Cypress's core operating results.

Minority interest, net of tax (q):

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 presents minority interest related to SunPower's core operations.