

**CYPRESS SEMICONDUCTOR CORPORATION**  
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**Q3 2006**

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

(Unaudited)

	October 1, 2006	January 1, 2006
<b>ASSETS</b>		
Cash, cash equivalents, and investments ( a )	\$ 708,148	\$ 393,788
Accounts receivable, net	179,951	151,213
Inventories	108,517	73,573
Property and equipment, net	527,721	464,656
Goodwill and other intangible assets	402,090	459,496
Other assets	177,074	155,148
Total assets	<u>\$ 2,103,501</u>	<u>\$ 1,697,874</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 115,491	\$ 72,125
Deferred income	62,140	29,404
Convertible subordinated notes	598,997	599,997
Income tax liabilities	56,601	59,590
Other accrued liabilities	162,658	141,319
Total liabilities	<u>995,887</u>	<u>902,435</u>
Minority interest	118,255	38,304
Stockholders' equity ( b )	989,359	757,135
Total liabilities and stockholders' equity	<u>\$ 2,103,501</u>	<u>\$ 1,697,874</u>

( a ) Cash, cash equivalents and investments included restricted cash totaling \$63.2 million and \$63.5 million as of October 1, 2006 and January 1, 2006, respectively.

( b ) Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 141,870 and 137,036 shares outstanding as of October 1, 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		
	October 1, 2006	October 2, 2005	July 2, 2006
Revenues	\$ 290,207	\$ 227,112	\$ 265,236
Cost of revenues ( a )	166,649	131,673	151,343
Gross margin	123,558	95,439	113,893
Operating expenses:			
Research and development ( a )	61,981	56,068	61,598
Selling, general and administrative ( a )	48,817	40,045	43,563
Amortization of intangibles	3,748	6,504	3,937
Restructuring costs (credits)	-	713	(113)
Total operating costs	114,546	103,330	108,985
Operating income (loss)	9,012	(7,891)	4,908
Net interest income and other	6,385	1,853	3,197
Income (loss) before income tax and minority interest	15,397	(6,038)	8,105
Income tax (provision) benefit	(2,320)	92	(1,119)
Minority interest, net of tax	(2,363)	-	(1,139)
Net income (loss)	\$ 10,714	\$ (5,946)	\$ 5,847
Basic net income (loss) per share	\$ 0.08	\$ (0.04)	\$ 0.04
Diluted net income (loss) per share	\$ 0.06	\$ (0.04)	\$ 0.04
Shares used in calculation:			
Basic	141,284	134,175	139,989
Diluted	179,087	134,175	145,306
( a ) includes the following stock-based compensation expense:			
Cost of revenues	\$ 2,623	\$ 1	\$ 2,877
Research and development	4,515	69	4,354
Selling, general and administrative	5,158	1,657	4,758

( 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>October 1, 2006</b>	<b>October 2, 2005</b>	<b>July 2, 2006</b>
Revenues	\$ 290,207	\$ 227,112	\$ 265,236
Costs of revenues	164,287	131,572	148,494
Gross margin	125,920	95,540	116,742
Operating expenses:			
Research and development	57,075	55,216	55,618
Selling, general and administrative	43,498	37,981	38,354
Total operating costs	100,573	93,197	93,972
Operating income	25,347	2,343	22,770
Net interest income and other	7,524	1,853	3,218
Income before income tax and minority interest	32,871	4,196	25,988
Income tax provision	(2,260)	(348)	(2,566)
Minority interest, net of tax	(2,986)	-	(1,526)
Net income	<u>\$ 27,625</u>	<u>\$ 3,848</u>	<u>\$ 21,896</u>
Basic net income per share	\$ 0.20	\$ 0.03	\$ 0.16
Diluted net income per share	\$ 0.16	\$ 0.03	\$ 0.13
Shares used in calculation:			
Basic	141,284	134,175	139,989
Diluted	180,261	142,403	178,910

- 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 MEASURES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per-share data)

(Unaudited)

	THREE MONTHS ENDED			THREE MONTHS ENDED			THREE MONTHS ENDED		
	October 1, 2006			October 2, 2005			July 2, 2006		
	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP
Revenues	\$ 290,207	-	\$ 290,207	\$ 227,112	-	\$ 227,112	\$ 265,236	-	\$ 265,236
Cost of revenues	166,649	(2,362) ( a )	164,287	131,673	(101) ( h )	131,572	151,343	(2,849) ( n )	148,494
Gross margin	123,558	2,362	125,920	95,439	101	95,540	113,893	2,849	116,742
Operating expenses:									
Research and development	61,981	(4,906) ( b )	57,075	56,068	(852) ( i )	55,216	61,598	(5,980) ( o )	55,618
Selling, general and administrative	48,817	(5,319) ( c )	43,498	40,045	(2,064) ( j )	37,981	43,563	(5,209) ( p )	38,354
Amortization of intangibles	3,748	(3,748) ( d )	-	6,504	(6,504) ( k )	-	3,937	(3,937) ( q )	-
Restructuring costs (credits)	-	-	-	713	(713) ( l )	-	(113)	113 ( r )	-
Total operating costs	114,546	(13,973)	100,573	103,330	(10,133)	93,197	108,985	(15,013)	93,972
Operating Income (loss)	9,012	16,335	25,347	(7,891)	10,234	2,343	4,908	17,862	22,770
Net interest income and other	6,385	1,139 ( e )	7,524	1,853	-	1,853	3,197	21 ( s )	3,218
Income (loss) before income tax and minority interest	15,397	17,474	32,871	(6,038)	10,234	4,196	8,105	17,883	25,988
Income tax (provision) benefit	(2,320)	60 ( f )	(2,260)	92	(440) ( m )	(348)	(1,119)	(1,447) ( t )	(2,566)
Minority interest, net of tax	(2,363)	(623) ( g )	(2,986)	-	-	-	(1,139)	(387) ( u )	(1,526)
Net income (loss)	\$ 10,714	\$ 16,911	\$ 27,625	\$ (5,946)	\$ 9,794	\$ 3,848	\$ 5,847	\$ 16,049	\$ 21,896
Basic net income (loss) per share	\$ 0.08		\$ 0.20	\$ (0.04)		\$ 0.03	\$ 0.04		\$ 0.16
Diluted net income (loss) per share	\$ 0.06		\$ 0.16	\$ (0.04)		\$ 0.03	\$ 0.04		\$ 0.13
Shares used in calculation:									
Basic	141,284		141,284	134,175		134,175	139,989		139,989
Diluted	179,087		180,261	134,175		142,403	145,306		178,910

**Three Months Ended October 1, 2006:**

- ( a ) Includes acquisition-related expense of \$5, stock-based compensation expense of \$2,623, and a credit of \$(266) related to changes in value of the deferred compensation plan.
- ( b ) Includes acquisition-related expense of \$362, stock-based compensation expense of \$4,515, synthetic lease loss accrual of \$335, and a credit of \$(306) related to changes in value of the deferred compensation plan.
- ( c ) Includes acquisition-related expense of \$230, stock-based compensation expense of \$5,158, synthetic lease loss accrual of \$165, and a credit of \$(234) related to changes in value of the deferred compensation plan.
- ( d ) Includes amortization of intangibles of \$3,748.
- ( e ) Includes an investment impairment charge of \$2,175 and an investment-related gain of \$(1,036).
- ( f ) Includes tax effect on adjusted-GAAP adjustments of \$60.
- ( g ) Includes minority interest adjustments of \$623.

**Three Months Ended October 2, 2005:**

- ( h ) Includes acquisition-related and other expense of \$100 and stock-based compensation expense of \$1.
- ( i ) Includes acquisition-related and other expense of \$579, stock-based compensation expense of \$69, and synthetic lease loss accrual of \$204.
- ( j ) Includes acquisition-related and other expense of \$307, stock-based compensation expense of \$1,657 and synthetic lease loss accrual of \$100.
- ( k ) Includes amortization of intangibles of \$6,504.
- ( l ) Includes restructuring costs of \$713.
- ( m ) Includes tax effect on adjusted-GAAP adjustments of \$440.

**Three Months Ended July 2, 2006:**

- ( n ) 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 deferred compensation plan.
- ( o ) 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 deferred compensation plan.
- ( p ) 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 deferred compensation plan.
- ( q ) Includes amortization of intangibles of \$3,937.
- ( r ) Includes restructuring credits of \$(113).
- ( s ) Includes an investment-related charge of \$21.
- ( t ) Includes tax effect on adjusted-GAAP adjustments of \$1,447.
- ( u ) Includes minority interest adjustments of \$387.

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

(Unaudited)

**Segment Information:**

	THREE MONTHS ENDED					
	October 1, 2006					
	CCD ( a )	DCD ( a )	MID ( a )	SunPower	Other	Consolidated
Revenues	\$ 89,738	\$ 36,143	\$ 85,953	\$ 65,348	\$ 13,025	\$ 290,207
Adjusted-GAAP gross margin %	45.7%	67.7%	39.3%	25.3%	77.5%	43.4%
Adjusted-GAAP basic net income (loss) per share contribution ( b )	\$ 0.03	\$ 0.08	\$ 0.05	\$ 0.06	\$ (0.02)	\$ 0.20
Adjusted-GAAP diluted net income (loss) per share contribution ( b )	\$ 0.03	\$ 0.06	\$ 0.04	\$ 0.05	\$ (0.02)	\$ 0.16

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

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

THREE MONTHS ENDED		
October 1, 2006		
\$	123,558	42.6%
	5	
	(266)	
	2,623	
\$	125,920	43.4%

**Reconciliation of GAAP Consolidated Gross Margin to Adjusted-GAAP Semiconductor Gross Margi ( d )**

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 deferred compensation plan	
Stock-based compensation expense	
Adjusted-GAAP semiconductor gross margin	

THREE MONTHS ENDED		
October 1, 2006		
\$	123,558	42.6%
	(15,184)	
	(1,176)	
	107,198	
	5	
	(266)	
	2,423	
\$	109,360	48.6%

- ( a ) CCD - Consumer and Computation Division; DCD - Data Communications Division; MID - Memory and Imaging Division.
- ( b ) Adjusted-GAAP net income (loss) per share by segment is calculated using the same diluted weighted-average share count as utilized for the consolidated reported results.
- ( 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 same 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.
- ( d ) Semiconductor includes all segments except SunPower.

**CYPRESS SEMICONDUCTOR CORPORATION**  
**RECONCILIATION OF GAAP TO ADJUSTED-GAAP INCOME BEFORE INCOME TAX AND MINORITY INTEREST**  
(In thousands, except percentage data)

(Unaudited)

	THREE MONTHS ENDED					
	October 1, 2006					
	Semiconductor ( a )		SunPower		Consolidated	
	Amount	As a % of Semiconductor Revenues	Amount	As a % of SunPower Revenues	Amount	As a % of Consolidated Revenues
GAAP income before income tax and minority interest	\$ 4,997	2.2%	\$ 10,400	15.9%	\$ 15,397	5.3%
Reconciling items: ( b )						
Acquisition-related expense	597		-		597	
Credits related to changes in value of deferred compensation plan	(806)		-		(806)	
Stock-based compensation expense	11,139		1,157		12,296	
Synthetic lease loss accrual	500		-		500	
Amortization of intangibles	2,572		1,176		3,748	
Investment-related charge	1,139		-		1,139	
Adjusted-GAAP income before income tax and minority interest	<u>\$ 20,138</u>	9.0%	<u>\$ 12,733</u>	19.5%	<u>\$ 32,871</u>	11.3%

( a ) Semiconductor includes all segments except SunPower. Refer to the "Supplemental Segment and Gross Margin Information" table for revenue information by segments.

( b ) Refer to the "Reconciliation of GAAP to Adjusted-GAAP Measures" table for the line items in the Condensed Consolidated Statements of Operations in which these amounts were recorded.

## Footnotes to Reconciliation of GAAP 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:**

*(notations correspond to the notations in the "Reconciliation of GAAP to Adjusted-GAAP Measures" table)*

#### Cost of revenues and gross margin (a)(h)(n):

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)(i)(j)(o)(p):

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 researching and developing new products, as well as Cypress's core selling, marketing and administrative cost structure.

#### Amortization of intangibles and restructuring (d)(k)(l)(q)(r):

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.

#### Net interest income and other (e)(s):

This adjusted-GAAP measure primarily excludes investment-related gains and impairment 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 (f)(m)(t):

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 (g)(u):

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.