

CYPRESS SEMICONDUCTOR CORPORATION
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Q1 2007

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

	April 1, 2007	December 31, 2006
ASSETS		
Cash, cash equivalents, and investments (a)	\$ 497,676	\$ 643,480
Accounts receivable, net	186,121	163,196
Costs and estimated earnings in excess of billings	19,096	-
Inventories, net	178,207	119,184
Property, plant and equipment, net	625,422	572,018
Goodwill and other intangible assets	634,080	395,845
Other assets	316,340	229,802
Total assets	\$ 2,456,942	\$ 2,123,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 147,085	\$ 92,206
Deferred income	34,799	44,917
Billings in excess of costs and estimated earnings	38,387	-
Convertible notes	800,000	598,996
Income tax liabilities	90,182	47,792
Other accrued liabilities	177,017	170,583
Total liabilities	1,287,470	954,494
Minority interest	191,533	123,472
Stockholders' equity (b)	977,939	1,045,559
Total liabilities and stockholders' equity	\$ 2,456,942	\$ 2,123,525

(a) Cash, cash equivalents and investments included restricted cash of zero and \$63.3 million as of April 1, 2007 and December 31, 2006, respectively. We used the restricted cash to purchase properties under the synthetic lease in the first quarter of fiscal 2007.

(b) Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 152,684 and 144,844 shares outstanding as of April 1, 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		
	April 1, 2007	December 31, 2006	April 2, 2006
Revenues	\$ 342,852	\$ 286,973	\$ 249,137
Cost of revenues	210,547	167,611	145,725
Gross margin	132,305	119,362	103,412
Operating expenses (credits):			
Research and development	52,370	57,859	62,666
Selling, general and administrative	68,705	50,252	44,920
Amortization of intangibles	9,220	3,738	4,450
In-process research and development charge	9,575	-	-
Restructuring costs	-	-	602
Impairment loss related to synthetic lease	7,006	-	-
Gain on divestitures	(10,782)	(8,732)	(5,998)
Total operating costs	136,094	103,117	106,640
Operating income (loss)	(3,789)	16,245	(3,228)
Interest income and other, net	1,141	4,182	12,009
Income (loss) before income tax and minority interest	(2,648)	20,427	8,781
Income tax (provision) benefit	993	(1,757)	(1,663)
Minority interest, net of tax	(366)	(2,830)	(37)
Net income (loss)	\$ (2,021)	\$ 15,840	\$ 7,081
Basic net income (loss) per share	\$ (0.01)	\$ 0.11	\$ 0.05
Diluted net income (loss) per share	\$ (0.01)	\$ 0.09	\$ 0.05
Shares used in per-share calculation:			
Basic	155,699	143,632	138,330
Diluted	155,699	181,680	144,915

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

	THREE MONTHS ENDED		
	April 1, 2007	December 31, 2006	April 2, 2006
Revenues	\$ 343,685	\$ 286,973	\$ 249,137
Costs of revenues	205,429	165,105	144,815
Gross margin	138,256	121,868	104,322
Operating expenses:			
Research and development	48,129	52,329	56,169
Selling, general and administrative	55,658	44,038	39,397
Total operating costs	103,787	96,367	95,566
Operating income	34,469	25,501	8,756
Interest income and other, net	5,030	6,723	2,823
Income before income tax and minority interest	39,499	32,224	11,579
Income tax provision	(4,356)	(2,739)	(1,149)
Minority interest, net of tax	(6,986)	(3,403)	(410)
Net income	<u>\$ 28,157</u>	<u>\$ 26,082</u>	<u>\$ 10,020</u>
Basic net income per share	\$ 0.18	\$ 0.18	\$ 0.07
Diluted net income per share	\$ 0.16	\$ 0.15	\$ 0.07
Shares used in per-share calculation:			
Basic	155,699	143,632	138,330
Diluted	181,549	183,895	178,724

- A reconciliation of GAAP to adjusted-GAAP measures is presented on the following page.
- Cypress's 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
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
RECONCILIATION OF GAAP TO ADJUSTED-GAAP MEASURES
(In thousands, except per-share data)
(Unaudited)

	THREE MONTHS ENDED			THREE MONTHS ENDED			THREE MONTHS ENDED		
	April 1, 2007			December 31, 2006			April 2, 2006		
	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP	GAAP	Adjustments	Adjusted-GAAP
Revenues	\$ 342,852	\$ 833 (1)	\$ 343,685	\$ 286,973	\$ -	\$ 286,973	\$ 249,137	\$ -	\$ 249,137
Cost of revenues	210,547	(5,118) (2)	205,429	167,611	(2,506) (12)	165,105	145,725	(910) (20)	144,815
Gross margin	132,305	5,951	138,256	119,362	2,506	121,868	103,412	910	104,322
Operating expenses (credits):									
Research and development	52,370	(4,241) (3)	48,129	57,859	(5,530) (13)	52,329	62,666	(6,497) (21)	56,169
Selling, general and administrative	68,705	(13,047) (4)	55,658	50,252	(6,214) (14)	44,038	44,920	(5,523) (22)	39,397
Amortization of intangibles	9,220	(9,220) (5)	-	3,738	(3,738) (15)	-	4,450	(4,450) (23)	-
In-process research and development charge	9,575	(9,575) (6)	-	-	-	-	-	-	-
Restructuring costs	-	-	-	-	-	-	602	(602) (24)	-
Impairment loss related to synthetic lease	7,006	(7,006) (7)	-	-	-	-	-	-	-
Gain on divestitures	(10,782)	10,782 (8)	-	(8,732)	8,732 (16)	-	(5,998)	5,998 (25)	-
Total operating costs	136,094	(32,307)	103,787	103,117	(6,750)	96,367	106,640	(11,074)	95,566
Operating Income (loss)	(3,789)	38,258	34,469	16,245	9,256	25,501	(3,228)	11,984	8,756
Interest income and other, net	1,141	3,889 (9)	5,030	4,182	2,541 (17)	6,723	12,009	(9,186) (26)	2,823
Income (loss) before income tax and minority interest	(2,648)	42,147	39,499	20,427	11,797	32,224	8,781	2,798	11,579
Income tax (provision) benefit	993	(5,349) (10)	(4,356)	(1,757)	(982) (18)	(2,739)	(1,663)	514 (27)	(1,149)
Minority interest, net of tax	(366)	(6,620) (11)	(6,986)	(2,830)	(573) (19)	(3,403)	(37)	(373) (28)	(410)
Net income (loss)	\$ (2,021)	\$ 30,178	\$ 28,157	\$ 15,840	\$ 10,242	\$ 26,082	\$ 7,081	\$ 2,939	\$ 10,020
Basic net income (loss) per share	\$ (0.01)		\$ 0.18	\$ 0.11		\$ 0.18	\$ 0.05		\$ 0.07
Diluted net income (loss) per share	\$ (0.01)		\$ 0.16	\$ 0.09		\$ 0.15	\$ 0.05		\$ 0.07
Shares used in per-share calculation:									
Basic	155,699		155,699	143,632		143,632	138,330		138,330
Diluted	155,699		181,549	181,680		183,895	144,915		178,724

Three Months Ended April 1, 2007:

- (1) Includes non-cash purchase accounting revenue adjustment of \$833.
- (2) Includes acquisition-related expense of \$4, stock-based compensation expense of \$5,121, and a credit of \$(7) related to changes in value of the deferred compensation plan.
- (3) Includes acquisition-related expense of \$89, stock-based compensation expense of \$4,159, and a credit of \$(7) related to changes in value of the deferred compensation plan.
- (4) Includes acquisition-related expense of \$228, stock-based compensation expense of \$12,825, and a credit of \$(6) related to changes in value of the deferred compensation plan.
- (5) Includes amortization of intangibles of \$9,220.
- (6) Includes in-process research and development charge of \$9,575 related to the PowerLight acquisition.
- (7) Includes impairment loss related to synthetic lease of \$7,006.
- (8) Includes gain on sale of SVTC of \$(10,560) and gain on sale of SMaL Camera Technologies of \$(222).
- (9) Includes investment-related net gains of \$(762) and write-off of unamortized bond issuance costs of \$4,651.
- (10) Includes tax effect on adjusted-GAAP adjustments of \$(5,349).
- (11) Includes minority interest adjustments of \$(6,620).

Three Months Ended December 31, 2006:

- (12) Includes acquisition-related expense of \$4, stock-based compensation expense of \$2,523, and a credit of \$(21) related to changes in value of the deferred compensation plan.
- (13) Includes acquisition-related expense of \$417, stock-based compensation expense of \$4,331, synthetic lease loss accrual of \$807, and a credit of \$(25) related to changes in value of the deferred compensation plan.
- (14) Includes acquisition-related expense of \$229, stock-based compensation expense of \$5,608, synthetic lease loss accrual of \$397, and a credit of \$(20) related to changes in value of the deferred compensation plan.
- (15) Includes amortization of intangibles of \$3,738.
- (16) Includes gain on sale of PC Clock business of \$(8,732).
- (17) Includes an investment impairment charge of \$2,267 and an investment-related loss of \$274.
- (18) Includes tax effect on adjusted-GAAP adjustments of \$(982).
- (19) Includes minority interest adjustments of \$(573).

Three Months Ended April 2, 2006:

- (20) Includes acquisition-related expense of \$19, stock-based compensation expense of \$917, and a credit of \$(26) related to changes in value of the deferred compensation plan.
- (21) Includes acquisition-related expense of \$1,476, stock-based compensation expense of \$4,716, synthetic lease residual guarantee accrual of \$335, and a credit of \$(30) related to changes in value of the deferred compensat
- (22) Includes acquisition-related expense of \$308, stock-based compensation expense of \$5,072, synthetic lease residual guarantee accrual of \$165, and a credit of \$(22) related to changes in value of the deferred compensat
- (23) Includes amortization of intangibles of \$4,450.
- (24) Includes restructuring costs of \$602.
- (25) Includes gain on sale of NSE assets of \$(5,998).
- (26) Includes investment-related gain and other credits of \$(10,028) and investment impairment and other charges of \$842.
- (27) Includes tax effect on adjusted-GAAP adjustments of \$514.
- (28) Includes minority interest adjustments of \$(373).

CYPRESS SEMICONDUCTOR CORPORATION
SUPPLEMENTAL INFORMATION - SELECTED BALANCE SHEET AND OTHER COMPONENTS
(In thousands)
(Unaudited)

	April 1, 2007			December 31, 2006		
	Semiconductor (a)	SunPower	Consolidated	Semiconductor (a)	SunPower	Consolidated
Balance Sheet Items:						
Cash, cash equivalents, and investments	\$ 283,086	\$ 214,590	\$ 497,676	\$ 461,388	\$ 182,092	\$ 643,480
Accounts receivable, net	\$ 103,353	\$ 82,768	\$ 186,121	\$ 111,516	\$ 51,680	\$ 163,196
Costs and estimated earnings in excess of billings	\$ -	\$ 19,096	\$ 19,096	\$ -	\$ -	\$ -
Inventories, net	\$ 104,975	\$ 73,232	\$ 178,207	\$ 96,404	\$ 22,780	\$ 119,184
Property, plant and equipment, net	\$ 371,401	\$ 254,021	\$ 625,422	\$ 369,590	\$ 202,428	\$ 572,018
Goodwill and other intangible assets	\$ 369,397	\$ 264,683	\$ 634,080	\$ 378,913	\$ 16,932	\$ 395,845
Accounts payable	\$ 54,802	\$ 92,283	\$ 147,085	\$ 65,672	\$ 26,534	\$ 92,206
Deferred income	\$ 34,614	\$ 185	\$ 34,799	\$ 44,641	\$ 276	\$ 44,917
Billings in excess of costs and estimated earnings	\$ -	\$ 38,387	\$ 38,387	\$ -	\$ -	\$ -
Convertible notes	\$ 600,000	\$ 200,000	\$ 800,000	\$ 598,996	\$ -	\$ 598,996
Income tax liabilities	\$ 50,090	\$ 40,092	\$ 90,182	\$ 45,751	\$ 2,041	\$ 47,792

	THREE MONTHS ENDED April 1, 2007			THREE MONTHS ENDED December 31, 2006		
	Semiconductor (a)	SunPower	Consolidated	Semiconductor (a)	SunPower	Consolidated
Other Supplemental Components:						
Capital expenditures (b)	\$ 19,723	\$ 47,437	\$ 67,160	\$ 44,207	\$ 43,689	\$ 87,896
Depreciation	\$ 21,343	\$ 5,647	\$ 26,990	\$ 22,340	\$ 4,716	\$ 27,056

	THREE MONTHS ENDED April 2, 2006		
	Semiconductor (a)	SunPower	Consolidated
	\$ 17,261	\$ 20,254	\$ 37,515
	\$ 23,612	\$ 3,327	\$ 26,939

(a) Semiconductor includes all segments except SunPower.

(b) Capital expenditures for the three months ended April 1, 2007 exclude \$50.1 million purchases of properties as a result of the termination of our synthetic lease.

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

Segment Information:

	THREE MONTHS ENDED						
	April 1, 2007						
	CCD (a)	DCD (a)	MID (a)	Other	Semiconductor (c)	SunPower	Consolidated
Revenues	\$ 76,752	\$ 32,519	\$ 84,710	\$ 6,524	\$ 200,505	\$ 142,347	\$ 342,852
Adjusted-GAAP gross margin % (b)	43.8%	66.0%	42.7%	82.6%	48.2%	29.0%	40.2%
Adjusted-GAAP diluted net income (loss) per share contribution (b)	\$ 0.02	\$ 0.04	\$ 0.05	\$ (0.04)	\$ 0.07	\$ 0.09	\$ 0.16

	THREE MONTHS ENDED						
	December 31, 2006						
	CCD (a)	DCD (a)	MID (a)	Other	Semiconductor (c)	SunPower	Consolidated
Revenues	\$ 79,872	\$ 27,942	\$ 91,662	\$ 12,988	\$ 212,464	\$ 74,509	\$ 286,973
Adjusted-GAAP gross margin % (b)	43.8%	62.6%	43.0%	80.2%	48.2%	26.2%	42.5%
Adjusted-GAAP diluted net income (loss) per share contribution (b)	\$ 0.01	\$ 0.02	\$ 0.08	\$ (0.01)	\$ 0.10	\$ 0.05	\$ 0.15

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

	THREE MONTHS ENDED		THREE MONTHS ENDED		THREE MONTHS ENDED	
	April 1, 2007		December 31, 2006		April 2, 2006	
GAAP consolidated gross margin	\$ 132,305	38.6%	\$ 119,362	41.6%	\$ 103,412	41.5%
Reconciling items (d):						
Non-cash purchase accounting revenue adjustment	833		-		-	
Acquisition-related expense	4		4		19	
Credits related to changes in value of the deferred compensation plan	(7)		(21)		(26)	
Stock-based compensation expense	5,121		2,523		917	
Adjusted-GAAP consolidated gross margin	\$ 138,256	40.2%	\$ 121,868	42.5%	\$ 104,322	41.9%

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

	THREE MONTHS ENDED		THREE MONTHS ENDED		THREE MONTHS ENDED	
	April 1, 2007		December 31, 2006		April 2, 2006	
GAAP consolidated gross margin	\$ 132,305	38.6%	\$ 119,362	41.6%	\$ 103,412	41.5%
Less: GAAP SunPower gross margin	(32,425)		(18,145)		(5,692)	
Amortization of SunPower's intangibles	(6,069)		(1,164)		(1,175)	
GAAP semiconductor gross margin	93,811		100,053		96,545	
Reconciling items:						
Acquisition-related and other expense	4		4		19	
Credits related to changes in value of the deferred compensation plan	(7)		(21)		(26)	
Stock-based compensation expense	2,871		2,305		724	
Adjusted-GAAP semiconductor gross margin	\$ 96,679	48.2%	\$ 102,341	48.2%	\$ 97,262	46.9%

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

(b) 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 in the "Reconciliation of GAAP to Adjusted-GAAP measures" table 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. As such, there is not a directly comparable GAAP measure for the segment adjusted-GAAP EPS and one is not presented.

(c) Semiconductor includes all segments except SunPower.

(d) Refer to the "Reconciliation of GAAP to Adjusted-GAAP Measures" table.

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 and credits 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)

Revenues (1):

This adjusted-GAAP measure excludes a non-cash purchase accounting revenue adjustment related to SunPower's acquisition of PowerLight. Management believes adjustments resulting from the PowerLight acquisition are not reflective of the Company's core business or operations.

Cost of revenues and gross margin (2)(12)(20):

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, selling, general and administrative and impairment loss related to synthetic lease (3)(4)(7)(13)(14)(21)(22):

These adjusted-GAAP measures exclude primarily acquisition-related and stock-based compensation expenses, and impairment loss related to the synthetic lease. Excluding these items identifies and provides important insights into what management believes to be the core operational costs for research and new product development, as well as Cypress's core selling, marketing and administrative cost structure.

In-process research and development charge (6):

This adjusted-GAAP measure excludes the one-time write-off of in-process research and development charge in connection with the PowerLight acquisition. Management does not view such expense as a core, ongoing operational cost.

Amortization of intangibles and restructuring (5)(15)(23)(24):

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 core business's performance.

Gain on divestitures (8)(16)(25):

This adjusted-GAAP measure excludes the gains resulted from the sales of certain businesses. For internal analysis of the Company's core operations, management does not view these gains as ongoing for the business or reflective of the core business's performance.

Net interest income and other (9)(17)(26):

This adjusted-GAAP measure primarily excludes one-time investment-related gains (losses) and write-off of bond issuance costs. 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 (10)(18)(27):

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 business and operations.

Minority interest, net of tax (11)(19)(28):

This adjusted-GAAP measure excludes a portion of the minority interest primarily relating to SunPower's acquisition-related and stock-based compensation expenses. This adjusted-GAAP measure presents minority interest resulting from SunPower's core business and operations.