

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

(Unaudited)

	THREE MONTHS ENDED		
	Apr 2, 2006	Apr 3, 2005	Jan 1, 2006
Revenues			
GAAP	\$ 249,137	\$ 200,304	\$ 238,473
Adjustments	-	-	-
Adjusted-GAAP	249,137	200,304	238,473
Cost of revenues			
GAAP	145,725	126,649	140,779
Acquisition-related and other (expense) credit	7	(119)	(300)
Stock-based compensation expense	(917)	-	(1)
Adjusted-GAAP (1)	144,815	126,530	140,478
Gross margin			
GAAP	103,412	73,655	97,694
Acquisition-related and other (expense) credit	(7)	119	300
Stock-based compensation expense	917	-	1
Adjusted-GAAP (1)	104,322	73,774	97,995
Research and development			
GAAP	62,666	58,040	55,609
Acquisition-related and other (expense)	(1,446)	(992)	(1,059)
Stock-based compensation (expense) credit	(4,716)	1,904	(100)
Synthetic lease - guarantee accrual	(335)	(204)	(204)
Adjusted-GAAP (2)	56,169	58,748	54,246
Selling, general and administrative			
GAAP	44,920	38,409	40,796
Acquisition-related and other (expense)	(286)	-	(2,880)
Stock-based compensation (expense) credit	(5,072)	-	1,636
Synthetic lease - guarantee accrual	(165)	(100)	(101)
Adjusted-GAAP (2)	39,397	38,309	39,451
Amortization of intangibles			
GAAP	4,450	8,400	5,692
Amortization of intangibles	(4,450)	(8,400)	(5,692)
Adjusted-GAAP (3)	-	-	-
In-process research and development charge			
GAAP	-	12,300	-
In-process research and development charge	-	(12,300)	-
Adjusted-GAAP (3)	-	-	-
Restructuring (costs) credits			
GAAP	602	22,709	(982)
Restructuring (costs) credits	(602)	(19,029)	982
Stock-based compensation (expense)	-	(3,680)	-
Adjusted-GAAP (3)	-	-	-
Gain on sale of NSE assets			
GAAP	(5,998)	-	-
Gain on sale of NSE assets	5,998	-	-
Adjusted-GAAP (4)	-	-	-
Total operating costs			
GAAP	106,640	139,858	101,115
Adjustments to GAAP indicated in footnotes (2) to (4)	(11,074)	(42,801)	(7,418)
Adjusted-GAAP (5)	95,566	97,057	93,697
Operating income (loss)			
GAAP	(3,228)	(66,203)	(3,421)
Adjustments to GAAP indicated in footnotes (1) to (4)	11,984	42,920	7,719
Adjusted-GAAP (6)	8,756	(23,283)	4,298
Net interest income (expense) and other			
GAAP	12,009	(2,282)	501
Gain on sale of investment and other	(10,028)	-	-
Investment impairment and other	842	421	830
Adjusted-GAAP (7)	2,823	(1,861)	1,331
Income (loss) before income tax and minority interest			
GAAP	8,781	(68,485)	(2,920)
Adjustments to GAAP indicated in footnotes (1) to (4) and (7)	2,798	43,341	8,549
Adjusted-GAAP (8)	11,579	(25,144)	5,629
Income tax (provision) benefit			
GAAP	(1,663)	(311)	1,037
Tax effects on adjusted-GAAP adjustments	514	311	(480)
Adjusted-GAAP (9)	(1,149)	-	557
Minority interest, net of tax			
GAAP	(37)	-	(275)
Minority interest, net of tax	(373)	-	(142)
Adjusted-GAAP (10)	(410)	-	(417)
Net income (loss)			
GAAP	7,081	(68,796)	(2,158)
Adjustments to GAAP indicated in footnotes (1) to (4), (7), (9) and (10)	2,939	43,652	7,927
Adjusted-GAAP (11)	\$ 10,020	\$ (25,144)	\$ 5,769

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 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.

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

These adjusted-GAAP measures exclude primarily acquisition-related and stock-based compensation expenses, and loss contingency accrual 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, 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, 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.

- (4) Gain on sale of NSE assets:
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.
- (5) Total operating costs:
This adjusted-GAAP measure excludes items as discussed in (2) to (4) above. Excluding these items provides important insights into Cypress's overall core ongoing operating expenses.
- (6) Operating income (loss):
This adjusted-GAAP measure excludes items as discussed in (1) to (4) 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.
- (7) Net interest income (expense) and other:
This adjusted-GAAP measure excludes gain on sale of investment, investment impairment and other related 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.
- (8) Income (loss) before income tax and minority interest:
This adjusted-GAAP measure excludes items as discussed in (1) to (4) and (7) above. This adjusted-GAAP measure provides important insights into Cypress's core operating results without regard for tax effects and minority interest.
- (9) Income tax (provision) benefit:
This adjusted-GAAP measure excludes the tax impact on the transactions that have been excluded from GAAP as discussed in (1) to (4) and (7) above. This adjusted-GAAP measure provides insights into the applicable taxes on Cypress's core operating results.
- (10) 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 presents minority interest related to SunPower's core operations.
- (11) Net income (loss):
This adjusted-GAAP measure reflects the after-tax impact of excluding the items as discussed in (1) to (4), (7), (9) and (10) 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.