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# FINANCIAL INFORMATION

According to US GAAP<sup>1</sup>  
(Unaudited)

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For the quarterly period ended 29 March 2020

## Cypress Semiconductor Corporation ("Cypress")



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<sup>1</sup> Except for unaudited non-GAAP financial measures as described below.

## Condensed Consolidated Statements of Operations (Unaudited)

US\$ in thousands (except per-share amounts)	3 months ended	
	29 Mar 2020	31 Mar 2019
Revenues	514,323	539,004
Costs and expenses:		
Cost of revenues	318,105	336,595
Research and development	86,282	88,606
Selling, general and administrative	65,829	81,987
<b>Total costs and expenses</b>	<b>470,216</b>	<b>507,188</b>
<b>Operating income</b>	<b>44,107</b>	<b>31,816</b>
Interest expense	(9,868)	(13,579)
Other income (expense), net	(5,820)	4,335
<b>Income before income taxes, share in net loss of equity method investees and non-controlling interests</b>	<b>28,419</b>	<b>22,572</b>
Income tax benefit	17,179	730
Share in loss, net of equity method investees	(3,703)	(3,590)
<b>Net Income</b>	<b>41,895</b>	<b>19,712</b>
Net income attributable to non-controlling interests, net of taxes	-	2
<b>Net income attributable to Cypress</b>	<b>41,895</b>	<b>19,714</b>
Net income per share attributable to Cypress:		
Basic	0.11	0.05
Diluted	0.11	0.05
Shares used in net income per share calculation:		
Basic	373,505	363,700
Diluted	390,854	373,131

## Revenue by Segment (Unaudited)

US\$ in thousands	3 months ended	
	29 Mar 2020	31 Mar 2019
Microcontroller and Connectivity Division ("MCD")	344,762	310,389
Memory Products Division ("MPD")	169,561	228,615
<b>Total revenues</b>	<b>514,323</b>	<b>539,004</b>

## Revenue by End Use (Unaudited)

US\$ in thousands	3 months ended	
	29 Mar 2020	31 Mar 2019
IoT	186,738	153,724
Automotive	207,012	197,814
Legacy	120,573	187,466
<b>Total revenues</b>	<b>514,323</b>	<b>539,004</b>

## Revenue by Geographical Location (Unaudited)

US\$ in thousands	3 months ended	
	29 Mar 2020	31 Mar 2019
United States	43,018	64,320
China, Taiwan, and Hong Kong	178,299	199,907
Japan	155,810	117,462
Europe	70,681	85,328
Rest of the World	66,515	71,987
<b>Total revenues</b>	<b>514,323</b>	<b>539,004</b>

## Condensed Consolidated Balance Sheets (Unaudited)

US\$ in thousands	29 Mar 2020	29 Dec 2019
Current assets:		
Cash and cash equivalents	910,263	415,462
Accounts receivable, net	293,698	301,755
Inventories	306,744	297,904
Other current assets	93,199	87,348
<b>Total current assets</b>	<b>1,603,904</b>	<b>1,102,469</b>
Property, plant and equipment, net	252,391	258,748
Operating lease right-of-use-assets	39,657	42,941
Goodwill	1,373,750	1,373,750
Intangible assets, net	233,963	283,183
Equity method investments	14,900	31,644
Deferred tax assets	351,630	348,622
Other long-term assets	116,158	114,757
<b>Total assets</b>	<b>3,986,353</b>	<b>3,556,114</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	166,521	151,393
Accrued compensation and employee benefits	44,952	54,245
Price adjustments and other distributor related reserves	261,160	230,559
Dividends payable	41,186	40,978
Current portion of long-term debt	710,834	13,615
Other current liabilities	105,818	124,164
<b>Total current liabilities</b>	<b>1,330,471</b>	<b>614,954</b>
Income taxes payable	56,394	54,941
Credit facility and long-term debt	415,757	712,808
Other long-term liabilities	78,856	73,156
<b>Total liabilities</b>	<b>1,881,478</b>	<b>1,455,859</b>
Stockholder's equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 551,444 and 549,545 shares issued; 374,599 and 372,704 shares outstanding at 29 March 2020 and 29 December 2019, respectively	5,514	5,495
Additional paid-in capital	5,592,127	5,617,075
Accumulated other comprehensive loss	(28,296)	(16,039)
Accumulated deficit	(1,074,544)	(1,116,438)
<b>Stockholder's equity before treasury stock</b>	<b>4,494,801</b>	<b>4,490,093</b>
Less: shares of common stock held in treasury, at cost; 176,845 and 176,841 shares at 29 March 2020 and 29 December 2019, respectively	(2,389,926)	(2,389,838)
<b>Total stockholder's equity</b>	<b>2,104,875</b>	<b>2,100,255</b>
<b>Total liabilities and equity</b>	<b>3,986,353</b>	<b>3,556,114</b>

## Condensed Consolidated Statements of Cash Flows (Unaudited)

US\$ in thousands	3 months ended	
	29 Mar 20	31 Mar 19
Cash flows from operating activities:		
<b>Net income</b>	<b>41,895</b>	<b>19,712</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	12,836	20,395
Depreciation and amortization	67,848	71,400
(Gain) loss on sale of NAND business to joint venture	(373)	3,532
Share in net loss of equity method investees	3,703	3,590
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	3,962	4,767
Restructuring and other costs	(39)	457
Other non-cash items	5,000	-
Changes in operating assets and liabilities, net of effects of acquisitions and divestiture:		
Accounts receivable	7,342	57,900
Inventories	(10,504)	(25,890)
Other current and long-term assets, net	(23,773)	2,110
Price adjustment and other distributor related reserves	30,600	(21,871)
Accounts payable and other liabilities	(12,534)	(77,546)
Assets held for sale	—	2,692
<b>Net cash provided by operating activities</b>	<b>125,963</b>	<b>61,248</b>
Cash flows from investing activities:		
Distribution from an equity method investee	9,933	-
Cash received on sale of NAND business to joint venture	411	-
Distributions, net of contributions from deferred compensation plan	3,838	6,098
Acquisition of property, plant and equipment, net	(9,105)	(10,534)
Cash received on sale of equity method investment	3,108	-
Other investing	-	60
<b>Net cash provided by (used in) investing activities</b>	<b>8,185</b>	<b>(4,376)</b>
Cash flows from financing activities:		
Borrowings under senior secured revolving credit facility	397,000	-
Repayment of term loan	-	(26,263)
Tax withholdings related to net share settlements of restricted stock units	(88)	(5,386)
Repayment of finance leases, loans and other	(336)	(388)
Payment of cash dividends	(40,978)	(39,748)
Proceeds from employee stock-based awards	5,073	14,312
Payment for extinguishment of 2% 2020 Spansion Exchangeable Notes due 2020 and 4.5% Convertible Senior Notes due 2022	(18)	-
<b>Net cash provided by (used in) financing activities</b>	<b>360,653</b>	<b>(57,473)</b>
Net increase (decrease) in cash and cash equivalents	494,801	(601)
Cash and cash equivalents, beginning of period	415,462	285,720
<b>Cash and cash equivalents, end of period</b>	<b>910,263</b>	<b>285,119</b>

## Basis of Preparation

The unaudited condensed consolidated interim financial information were prepared in conformity with accounting principles generally accepted in the United States ("US GAAP")<sup>2</sup> and include the accounts of Cypress Semiconductor Corporation and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated interim financial information should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Cypress' Annual Report on Form 10-K for the fiscal year ended December 29, 2019. This applies in particular to the recognition, measurement and presentation principles described therein. The unaudited condensed consolidated interim financial information do not include all disclosures required by US GAAP.

## Non-GAAP Financial Measures (Unaudited)

To supplement its unaudited condensed consolidated financial results presented in accordance with US GAAP, Cypress uses non-GAAP financial measures, which are adjusted from the most directly comparable US GAAP financial measures to exclude certain items, as described in more detail below. Cypress presents non-GAAP financial measures because management uses these measures to analyze and assess the Company's financial results and to manage the business.

There are limitations in using non-GAAP financial measures, including those described below. Moreover, Cypress' non-GAAP measures may be calculated differently than the non-GAAP financial measures used by other companies. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the most directly comparable US GAAP financial measures. The non-GAAP financial measures supplement and should be viewed in conjunction with US GAAP financial measures.

## Non-GAAP operating income (Unaudited)

For the three months ended 29 March 2020 (Q1 2020)

US\$ in thousands					
	Revenue	Cost of revenues	Research and development	SG&A	Operating income
<b>GAAP</b>	<b>514,323</b>	<b>318,105</b>	<b>86,282</b>	<b>65,829</b>	<b>44,107</b>
Stock based compensation	-	(3,748)	(4,469)	(4,619)	12,836
Changes in value of deferred compensation plan	-	479	3,310	2,424	(6,213)
Amortization of intangibles	-	(44,561)	-	(4,310)	48,871
Infineon acquisition-related expenses	-	-	-	(1,708)	1,708
Gain from sale of NAND business to joint venture	-	373	-	-	(373)
<b>Total impact of reconciling items</b>	<b>-</b>	<b>(47,457)</b>	<b>(1,159)</b>	<b>(8,213)</b>	<b>56,829</b>
<b>Non GAAP</b>	<b>514,323</b>	<b>270,648</b>	<b>85,123</b>	<b>57,616</b>	<b>100,936</b>

As presented in the table above, non-GAAP operating income excludes one or more of the following items:

Acquisition-related charges: Acquisition-related charges are not factored into management's evaluation of Cypress' long-term performance after the completion of acquisitions. However, a limitation of non-GAAP measures that exclude acquisition-related charges is that these charges may represent payments that reduce the cash available to the Company for other purposes. Acquisition-related expenses primarily include:

- Amortization of purchased intangibles, including purchased technology, patents, customer relationships, trademarks, backlog and non-compete agreements;
- Amortization of step-up in value of inventory recorded as part of purchase price accounting; and
- One-time charges associated with the completion of an acquisition including items such as contract termination costs, severance and other acquisition-related restructuring costs; costs incurred in connection with integration activities; and legal and accounting costs.

Stock-based compensation expense: Stock-based compensation expense relates primarily to employee stock options, restricted stock units, performance stock units and the employee stock purchase plan. Stock-based compensation expense is a non-cash expense that is affected by changes in market factors including the price of Cypress' common shares, which are not within the control of management. In addition, the valuation of stock-based compensation is subjective, and the expense recognized by Cypress may be significantly different than the expense recognized by other companies for similar equity awards, which makes it difficult to assess Cypress' results compared to its competitors. Accordingly, management excludes this item from its

<sup>2</sup> Except for unaudited non-GAAP financial measures as described below.

internal operating forecasts and models. However, a limitation of non-GAAP measures that exclude stock-based compensation expense is that they do not reflect the full costs of compensating employees.

Other adjustments: Other items are excluded from non-GAAP operating income because management does not consider them to be related to the core operating activities and ongoing operating performance of Cypress. Excluding these items, which can vary significantly from quarter to quarter, allows management to better compare Cypress' period-over-period performance. However, limitations of non-GAAP measures that exclude these items include that these adjustments are often subjective and such non-GAAP measures may not be comparable to similarly titled non-GAAP financial measures used by other companies. Other adjustments primarily include:

- Costs incurred in connection with the merger with Infineon,
- Impairments of equity-method investments,
- Changes in value of deferred compensation plan assets and liabilities,
- Investment-related gains or losses, including equity method investments,
- Restructuring and related costs,
- Asset impairments, and
- Certain other expenses and benefits.

### Free cash flow (Unaudited)

US\$ in thousands	3 months ended	
	29 Mar 20	31 Mar 19
GAAP net cash provided by operating activities	125,963	61,248
Acquisition of property, plant and equipment, net	(9,105)	(10,534)
<b>Free cash flow</b>	<b>116,858</b>	<b>50,714</b>

Free cash flow of Cypress is calculated as net cash provided by (used in) operating activities, less acquisition of property, plant and equipment, net (i.e., acquisition of property, plant and equipment less proceeds received from disposition of property, plant and equipment). A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period.