

SanDisk Corporation
Preliminary Condensed Consolidated Statements of Operations
(in thousands, except per share amounts, unaudited)

	Three months ended		Twelve months ended	
	December 29, 2013	December 30, 2012	December 29, 2013	December 30, 2012
Revenues	\$ 1,727,858	\$ 1,541,503	\$ 6,170,003	\$ 5,052,509
Cost of revenues	851,087	928,661	3,252,988	3,326,747
Amortization of acquisition-related intangible assets	19,616	9,830	49,532	42,542
Total cost of revenues	870,703	938,491	3,302,520	3,369,289
Gross profit	857,155	603,012	2,867,483	1,683,220
Operating expenses:				
Research and development	215,281	159,075	742,268	602,765
Sales and marketing	81,347	64,820	276,312	224,054
General and administrative	51,158	39,913	192,310	150,401
Amortization of acquisition-related intangible assets	1,956	2,369	11,155	9,045
Impairment of acquisition-related intangible assets	—	860	83,228	860
Total operating expenses	349,742	267,037	1,305,273	987,125
Operating income	507,413	335,975	1,562,210	696,095
Other income (expense), net	(12,171)	(12,971)	(46,061)	(69,179)
Income before income taxes	495,242	323,004	1,516,149	626,916
Provision for income taxes	157,462	109,461	473,492	209,512
Net income	\$ 337,780	\$ 213,543	\$ 1,042,657	\$ 417,404
Net income per share:				
Basic	\$ 1.50	\$ 0.88	\$ 4.44	\$ 1.72
Diluted	\$ 1.45	\$ 0.87	\$ 4.34	\$ 1.70
Shares used in computing net income per share:				
Basic	225,252	241,451	234,886	242,076
Diluted	232,812	244,161	240,236	245,253

SanDisk Corporation
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results ⁽¹⁾
(in thousands, except per share data, unaudited)

	Three months ended		Twelve months ended	
	December 29, 2013	December 30, 2012	December 29, 2013	December 30, 2012
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME	\$ 337,780	\$ 213,543	\$ 1,042,657	\$ 417,404
Share-based compensation (a)	27,431	19,160	99,756	78,443
Amortization of acquisition-related intangible assets (b)	21,572	12,199	60,687	51,587
Impairment of acquisition-related intangible assets (c)	-	860	83,228	860
Convertible debt interest (d)	17,402	23,036	67,604	89,963
Income tax adjustments (e)	(13,840)	(11,582)	(86,971)	(55,848)
NON-GAAP NET INCOME	<u>\$ 390,345</u>	<u>\$ 257,216</u>	<u>\$ 1,266,961</u>	<u>\$ 582,409</u>
GAAP COST OF REVENUES				
GAAP COST OF REVENUES	\$ 870,703	\$ 938,491	\$ 3,302,520	\$ 3,369,289
Share-based compensation (a)	(2,940)	(2,070)	(9,820)	(7,459)
Amortization of acquisition-related intangible assets (b)	(19,616)	(9,830)	(49,532)	(42,542)
NON-GAAP COST OF REVENUES	<u>\$ 848,147</u>	<u>\$ 926,591</u>	<u>\$ 3,243,168</u>	<u>\$ 3,319,288</u>
GAAP GROSS PROFIT				
GAAP GROSS PROFIT	\$ 857,155	\$ 603,012	\$ 2,867,483	\$ 1,683,220
Share-based compensation (a)	2,940	2,070	9,820	7,459
Amortization of acquisition-related intangible assets (b)	19,616	9,830	49,532	42,542
NON-GAAP GROSS PROFIT	<u>\$ 879,711</u>	<u>\$ 614,912</u>	<u>\$ 2,926,835</u>	<u>\$ 1,733,221</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 215,281	\$ 159,075	\$ 742,268	\$ 602,765
Share-based compensation (a)	(14,035)	(9,981)	(51,521)	(41,010)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 201,246</u>	<u>\$ 149,094</u>	<u>\$ 690,747</u>	<u>\$ 561,755</u>
GAAP SALES AND MARKETING EXPENSES				
GAAP SALES AND MARKETING EXPENSES	\$ 81,347	\$ 64,820	\$ 276,312	\$ 224,054
Share-based compensation (a)	(5,380)	(3,528)	(19,193)	(14,585)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 75,967</u>	<u>\$ 61,292</u>	<u>\$ 257,119</u>	<u>\$ 209,469</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 51,158	\$ 39,913	\$ 192,310	\$ 150,401
Share-based compensation (a)	(5,076)	(3,581)	(19,222)	(15,389)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 46,082</u>	<u>\$ 36,332</u>	<u>\$ 173,088</u>	<u>\$ 135,012</u>
GAAP TOTAL OPERATING EXPENSES				
GAAP TOTAL OPERATING EXPENSES	\$ 349,742	\$ 267,037	\$ 1,305,273	\$ 987,125
Share-based compensation (a)	(24,491)	(17,090)	(89,936)	(70,984)
Amortization of acquisition-related intangible assets (b)	(1,956)	(2,369)	(11,155)	(9,045)
Impairment of acquisition-related intangible assets (c)	-	(860)	(83,228)	(860)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 323,295</u>	<u>\$ 246,718</u>	<u>\$ 1,120,954</u>	<u>\$ 906,236</u>
GAAP OPERATING INCOME				
GAAP OPERATING INCOME	\$ 507,413	\$ 335,975	\$ 1,562,210	\$ 696,095
Cost of revenues adjustments (a) (b)	22,556	11,900	59,352	50,001
Operating expense adjustments (a) (b) (c)	26,447	20,319	184,319	80,889
NON-GAAP OPERATING INCOME	<u>\$ 556,416</u>	<u>\$ 368,194</u>	<u>\$ 1,805,881</u>	<u>\$ 826,985</u>
GAAP OTHER INCOME (EXPENSE), NET				
GAAP OTHER INCOME (EXPENSE), NET	\$ (12,171)	\$ (12,971)	\$ (46,061)	\$ (69,179)
Convertible debt interest (d)	17,402	23,036	67,604	89,963
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ 5,231</u>	<u>\$ 10,065</u>	<u>\$ 21,543</u>	<u>\$ 20,784</u>
GAAP NET INCOME				
GAAP NET INCOME	\$ 337,780	\$ 213,543	\$ 1,042,657	\$ 417,404
Cost of revenues adjustments (a) (b)	22,556	11,900	59,352	50,001
Operating expense adjustments (a) (b) (c)	26,447	20,319	184,319	80,889
Other income (expense) adjustments (d)	17,402	23,036	67,604	89,963
Income tax adjustments (e)	(13,840)	(11,582)	(86,971)	(55,848)
NON-GAAP NET INCOME	<u>\$ 390,345</u>	<u>\$ 257,216</u>	<u>\$ 1,266,961</u>	<u>\$ 582,409</u>
Diluted net income per share:				
GAAP	\$ 1.45	\$ 0.87	\$ 4.34	\$ 1.70
Non-GAAP	\$ 1.71	\$ 1.05	\$ 5.31	\$ 2.38
Shares used in computing diluted net income per share:				
GAAP	232,812	244,161	240,236	245,253
Non-GAAP (f)	228,829	244,081	238,419	245,199

SanDisk Corporation
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results ⁽¹⁾
(in thousands, unaudited)

	Three months ended		Twelve months ended	
	December 29, 2013	December 30, 2012	December 29, 2013	December 30, 2012
SUMMARY RECONCILIATION OF DILUTED SHARES				
GAAP	232,812	244,161	240,236	245,253
Adjustments for share-based compensation	358	(80)	271	(54)
Offsetting shares from call option	(4,341)	-	(2,088)	-
Non-GAAP (f)	228,829	244,081	238,419	245,199

(1) To supplement our condensed consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), we use non-GAAP measures of operating results, net income and net income per share, which are adjusted from results based on GAAP to exclude certain expenses, gains and losses. These non-GAAP financial measures are provided to enhance the user's overall understanding of our current financial performance and our prospects for the future. Specifically, we believe the non-GAAP results provide useful information to both management and investors as these non-GAAP results exclude certain expenses, gains and losses that we believe are not indicative of our core operating results and because they are consistent with the financial models and estimates published by many analysts who follow us. For example, because the non-GAAP results exclude the expenses we recorded for share-based compensation, amortization of acquisition-related intangible assets related to acquisitions of Matrix Semiconductor, Inc. in January 2006, Pliant Technology, Inc. in May 2011, FlashSoft Corporation in February 2012, Schooner Information Technology, Inc. in June 2012 and SMART Storage Systems in August 2013, impairment of acquisition-related intangible assets, non-cash economic interest expense associated with the convertible debt and related tax adjustments, we believe the inclusion of non-GAAP financial measures provides consistency in our financial reporting. In addition, our non-GAAP diluted shares include the impact of the call option which, when exercised, will offset the issuance of dilutive shares from the 1.5% Sr. Convertible Notes due 2017, while the GAAP diluted shares exclude the anti-dilutive impact of this call option. These non-GAAP results are some of the primary indicators management uses for assessing our performance, allocating resources and planning and forecasting future periods. Further, management uses non-GAAP information that excludes certain non-cash charges, such as amortization of acquisition-related intangible assets, impairment of acquisition-related intangible assets, share-based compensation, non-cash economic interest expense associated with the convertible debt and related tax adjustments, as these non-GAAP charges do not reflect the cash operating results of the business or the ongoing results. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. These non-GAAP measures may be different than the non-GAAP measures used by other companies.

(a) Share-based compensation expense.

(b) Amortization of acquisition-related intangible assets, primarily core technology, developed technology, customer relationships and trademarks related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), Pliant Technology, Inc. (May 2011), FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012) and SMART Storage Systems (August 2013).

(c) Impairment of acquisition-related intangible assets and in-process research and development related to the Schooner Information Technology, Inc. and Pliant Technology, Inc. acquisitions.

(d) Incremental interest expense relating to the non-cash economic interest expense associated with the 1% Sr. Convertible Notes due 2013, 1.5% Sr. Convertible Notes due 2017, and 0.5% Sr. Convertible Notes due 2020.

(e) Income taxes associated with certain non-GAAP to GAAP adjustments.

(f) Non-GAAP diluted shares include the impact of offsetting shares from the call option related to the 1.5% Sr. Convertible Notes due 2017 and the impact of share-based compensation.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(in thousands, unaudited)

	December 29, 2013	December 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 986,246	\$ 995,470
Short-term marketable securities	1,919,611	1,880,034
Accounts receivable, net	682,809	626,025
Inventory	756,975	750,075
Deferred taxes	138,192	93,877
Other current assets	166,885	260,879
Total current assets	4,650,718	4,606,360
Long-term marketable securities	3,179,471	2,835,931
Property and equipment, net	655,794	665,542
Notes receivable and investments in Flash Ventures	1,134,620	1,460,112
Deferred taxes	134,669	168,718
Goodwill	318,111	201,735
Intangible assets, net	247,904	246,919
Other non-current assets	167,430	153,810
Total assets	\$ 10,488,717	\$ 10,339,127
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 282,582	\$ 254,459
Accounts payable to related parties	146,964	214,806
Convertible short-term debt	-	906,708
Other current accrued liabilities	509,732	257,539
Deferred income on shipments to distributors and retailers and deferred revenue	291,302	248,155
Total current liabilities	1,230,580	1,881,667
Convertible long-term debt	1,985,363	789,913
Non-current liabilities	307,083	407,947
Total liabilities	3,523,026	3,079,527
EQUITY		
Stockholders' equity:		
Common stock	5,040,242	5,027,512
Retained earnings	2,004,089	2,071,268
Accumulated other comprehensive income (loss)	(76,459)	165,121
Total stockholders' equity	6,967,872	7,263,901
Non-controlling interests	(2,181)	(4,301)
Total equity	6,965,691	7,259,600
Total liabilities and equity	\$ 10,488,717	\$ 10,339,127

SanDisk Corporation
Preliminary Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three months ended		Twelve months ended	
	December 29, 2013	December 30, 2012	December 29, 2013	December 30, 2012
Cash flows from operating activities:				
Net income	\$ 337,780	\$ 213,543	\$ 1,042,657	\$ 417,404
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	(52,727)	24,814	527	34,368
Depreciation	60,472	49,478	226,334	161,949
Amortization	65,775	64,273	237,731	254,352
Provision for doubtful accounts	1,669	1,382	2,167	1,452
Share-based compensation expense	27,431	19,160	99,756	78,443
Excess tax benefit from share-based plans	(7,299)	(1,899)	(27,198)	(16,015)
Impairment and other	(697)	(3,094)	75,561	(17,350)
Other non-operating	(1,566)	528	(792)	9,424
Changes in operating assets and liabilities:				
Accounts receivable, net	624	(124,151)	(51,125)	(68,070)
Inventory	19,214	102,534	23,310	(71,260)
Other assets	170,806	(119,966)	147,713	(84,579)
Accounts payable trade	(65,817)	(63,888)	16,377	(4,124)
Accounts payable to related parties	(16,867)	(11,330)	(67,842)	(61,469)
Other liabilities	78,017	164,242	138,496	(104,671)
Total adjustments	279,035	102,083	821,015	112,450
Net cash provided by operating activities	<u>616,815</u>	<u>315,626</u>	<u>1,863,672</u>	<u>529,854</u>
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(2,421,041)	(1,228,496)	(4,925,520)	(3,178,660)
Proceeds from sales of short and long-term marketable securities	576,178	613,799	3,701,528	2,197,302
Proceeds from maturities of short and long-term marketable securities	117,300	171,585	751,900	650,060
Acquisition of property and equipment, net	(42,700)	(105,341)	(213,415)	(487,973)
Investment in Flash Ventures	(12,342)	—	(12,342)	(50,439)
Notes receivable issuances to Flash Ventures	(37,099)	—	(37,099)	(142,316)
Notes receivable proceeds from Flash Ventures	51,377	153,413	124,765	511,289
Purchased technology and other assets	884	(3,755)	(8,377)	(4,000)
Acquisitions, net of cash acquired	—	(212)	(304,320)	(69,629)
Net cash used in investing activities	<u>(1,767,443)</u>	<u>(399,007)</u>	<u>(922,880)</u>	<u>(574,366)</u>
Cash flows from financing activities:				
Proceeds from issuance of convertible senior notes, net of issuance costs	1,483,125	—	1,483,125	—
Purchase of convertible bond hedge	(331,650)	—	(331,650)	—
Proceeds from sale of warrants	217,800	—	217,800	—
Repayment of debt financing	—	—	(928,061)	—
Distribution to non-controlling interests	—	—	(87)	—
Proceeds from employee stock programs	59,992	8,532	266,044	86,302
Excess tax benefit from share-based plans	7,299	1,899	27,198	16,015
Dividends paid	(50,553)	—	(101,191)	—
Share repurchase program	(150,000)	(38,577)	(1,589,539)	(230,081)
Net cash received for share repurchase contracts	—	—	—	2,675
Net cash provided by (used in) financing activities	<u>1,236,013</u>	<u>(28,146)</u>	<u>(956,361)</u>	<u>(125,089)</u>
Effect of changes in foreign currency exchange rates on cash	<u>(1,904)</u>	<u>(3,488)</u>	<u>6,345</u>	<u>(2,425)</u>
Net increase (decrease) in cash and cash equivalents	83,481	(115,015)	(9,224)	(172,026)
Cash and cash equivalents at beginning of period	902,765	1,110,485	995,470	1,167,496
Cash and cash equivalents at end of period	<u>\$ 986,246</u>	<u>\$ 995,470</u>	<u>\$ 986,246</u>	<u>\$ 995,470</u>