

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

	Three months ended		Twelve months ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Revenue	\$ 1,735,254	\$ 1,727,858	\$ 6,627,701	\$ 6,170,003
Cost of revenue	962,445	851,087	3,458,954	3,252,988
Amortization of acquisition-related intangible assets	33,039	19,616	100,899	49,532
Total cost of revenue	995,484	870,703	3,559,853	3,302,520
Gross profit	739,770	857,155	3,067,848	2,867,483
Operating expenses:				
Research and development	226,142	215,281	852,310	742,268
Sales and marketing	111,526	81,347	383,288	276,312
General and administrative	52,104	51,158	214,902	192,310
Amortization of acquisition-related intangible assets	13,681	1,956	26,423	11,155
Impairment of acquisition-related intangible assets	—	—	—	83,228
Restructuring and other	8,007	—	32,991	—
Total operating expenses	411,460	349,742	1,509,914	1,305,273
Operating income	328,310	507,413	1,557,934	1,562,210
Other income (expense), net	(24,815)	(12,171)	(68,904)	(46,061)
Income before income taxes	303,495	495,242	1,489,030	1,516,149
Provision for income taxes	101,604	157,462	481,584	473,492
Net income	\$ 201,891	\$ 337,780	\$ 1,007,446	\$ 1,042,657
Net income per share:				
Basic	\$ 0.93	\$ 1.50	\$ 4.52	\$ 4.44
Diluted	\$ 0.86	\$ 1.45	\$ 4.23	\$ 4.34
Shares used in computing net income per share:				
Basic	217,264	225,252	222,714	234,886
Diluted	234,794	232,812	238,209	240,236

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 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
SUMMARY RECONCILIATION OF NET INCOME:				
GAAP NET INCOME	\$ 201,891	\$ 337,780	\$ 1,007,446	\$ 1,042,657
Share-based compensation (a)	40,639	27,431	155,313	99,756
Amortization of acquisition-related intangible assets (b)	46,720	21,572	127,322	60,687
Inventory step-up expense (c)	2,931	—	7,834	—
Impairment of acquisition-related intangible assets (d)	—	—	—	83,228
Convertible debt interest (e)	22,152	17,402	85,734	67,604
Income tax adjustments (f)	(20,388)	(13,840)	(95,474)	(86,971)
NON-GAAP NET INCOME	<u>\$ 293,945</u>	<u>\$ 390,345</u>	<u>\$ 1,288,175</u>	<u>\$ 1,266,961</u>
GAAP COST OF REVENUE	\$ 995,484	\$ 870,703	\$ 3,559,853	\$ 3,302,520
Share-based compensation (a)	(4,601)	(2,940)	(14,719)	(9,820)
Amortization of acquisition-related intangible assets (b)	(33,039)	(19,616)	(100,899)	(49,532)
Inventory step-up expense (c)	(2,931)	—	(7,834)	—
NON-GAAP COST OF REVENUE	<u>\$ 954,913</u>	<u>\$ 848,147</u>	<u>\$ 3,436,401</u>	<u>\$ 3,243,168</u>
GAAP GROSS PROFIT	\$ 739,770	\$ 857,155	\$ 3,067,848	\$ 2,867,483
Share-based compensation (a)	4,601	2,940	14,719	9,820
Amortization of acquisition-related intangible assets (b)	33,039	19,616	100,899	49,532
Inventory step-up expense (c)	2,931	—	7,834	—
NON-GAAP GROSS PROFIT	<u>\$ 780,341</u>	<u>\$ 879,711</u>	<u>\$ 3,191,300</u>	<u>\$ 2,926,835</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 226,142	\$ 215,281	\$ 852,310	\$ 742,268
Share-based compensation (a)	(20,198)	(14,035)	(74,842)	(51,521)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 205,944</u>	<u>\$ 201,246</u>	<u>\$ 777,468</u>	<u>\$ 690,747</u>
GAAP SALES AND MARKETING EXPENSES	\$ 111,526	\$ 81,347	\$ 383,288	\$ 276,312
Share-based compensation (a)	(8,953)	(5,380)	(36,214)	(19,193)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 102,573</u>	<u>\$ 75,967</u>	<u>\$ 347,074</u>	<u>\$ 257,119</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 52,104	\$ 51,158	\$ 214,902	\$ 192,310
Share-based compensation (a)	(6,887)	(5,076)	(29,538)	(19,222)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 45,217</u>	<u>\$ 46,082</u>	<u>\$ 185,364</u>	<u>\$ 173,088</u>
GAAP TOTAL OPERATING EXPENSES	\$ 411,460	\$ 349,742	\$ 1,509,914	\$ 1,305,273
Share-based compensation (a)	(36,038)	(24,491)	(140,594)	(89,936)
Amortization of acquisition-related intangible assets (b)	(13,681)	(1,956)	(26,423)	(11,155)
Impairment of acquisition-related intangible assets (d)	—	—	—	(83,228)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 361,741</u>	<u>\$ 323,295</u>	<u>\$ 1,342,897</u>	<u>\$ 1,120,954</u>
GAAP OPERATING INCOME	\$ 328,310	\$ 507,413	\$ 1,557,934	\$ 1,562,210
Cost of revenue adjustments (a) (b) (c)	40,571	22,556	123,452	59,352
Operating expense adjustments (a) (b) (d)	49,719	26,447	167,017	184,319
NON-GAAP OPERATING INCOME	<u>\$ 418,600</u>	<u>\$ 556,416</u>	<u>\$ 1,848,403</u>	<u>\$ 1,805,881</u>
GAAP OTHER INCOME (EXPENSE), NET	\$ (24,815)	\$ (12,171)	\$ (68,904)	\$ (46,061)
Convertible debt interest (e)	22,152	17,402	85,734	67,604
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ (2,663)</u>	<u>\$ 5,231</u>	<u>\$ 16,830</u>	<u>\$ 21,543</u>
GAAP NET INCOME	\$ 201,891	\$ 337,780	\$ 1,007,446	\$ 1,042,657
Cost of revenue adjustments (a) (b) (c)	40,571	22,556	123,452	59,352
Operating expense adjustments (a) (b) (d)	49,719	26,447	167,017	184,319
Other income (expense) adjustments (e)	22,152	17,402	85,734	67,604
Income tax adjustments (f)	(20,388)	(13,840)	(95,474)	(86,971)
NON-GAAP NET INCOME	<u>\$ 293,945</u>	<u>\$ 390,345</u>	<u>\$ 1,288,175</u>	<u>\$ 1,266,961</u>
Diluted net income per share:				
GAAP	\$ 0.86	\$ 1.45	\$ 4.23	\$ 4.34
Non-GAAP	\$ 1.30	\$ 1.71	\$ 5.60	\$ 5.31
Shares used in computing diluted net income per share:				
GAAP	234,794	232,812	238,209	240,236
Non-GAAP (g)	225,482	228,829	230,194	238,419

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

	Three months ended		Twelve months ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
SUMMARY RECONCILIATION OF DILUTED SHARES:				
GAAP	234,794	232,812	238,209	240,236
Adjustments for share-based compensation	260	358	246	271
Offsetting shares from call options	(9,572)	(4,341)	(8,261)	(2,088)
Non-GAAP (g)	225,482	228,829	230,194	238,419

(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 Pliant Technology, Inc. in May 2011, FlashSoft Corporation in February 2012, Schooner Information Technology, Inc. in June 2012, SMART Storage Systems in August 2013 and Fusion-io, Inc. in July 2014, inventory step-up expense, non-cash economic interest expense associated with the convertible debt, non-cash change in fair value of the liability component of the convertible debt due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017 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 options which, when exercised, will offset the issuance of dilutive shares from the 1.5% Convertible Senior Notes due 2017 and 0.5% Convertible Senior Notes due 2020, while the GAAP diluted shares exclude the anti-dilutive impact of these call options. 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 share-based compensation, amortization of acquisition-related intangible assets, inventory step-up expense, non-cash economic interest expense associated with the convertible debt, non-cash change in fair value of the liability component of the convertible debt due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017 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 developed technology, customer relationships, and trademarks and trade names related to the acquisitions of Pliant Technology, Inc., FlashSoft Corporation, Schooner Information Technology, Inc., SMART Storage Systems and Fusion-io, Inc.
- (c) Inventory step-up expense related to the acquisition of Fusion-io, Inc.
- (d) Impairment of acquisition-related intangible assets and in-process research and development related to the acquisitions of Schooner Information Technology, Inc. and Pliant Technology, Inc.
- (e) Incremental interest expense related to the non-cash economic interest expense associated with the 1% Convertible Senior Notes due 2013, 1.5% Convertible Senior Notes due 2017 and 0.5% Convertible Senior Notes due 2020, and the non-cash change in fair value of the liability component of the convertible debt due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017.
- (f) Income taxes associated with certain non-GAAP to GAAP adjustments and the effects of one-time income tax adjustments recorded in a specific quarter for GAAP purposes are reflected on a forecast basis in our non-GAAP tax rate but not in our forecasted GAAP tax rate.
- (g) Non-GAAP diluted shares include the impact of offsetting shares from the call options related to the 1.5% Convertible Senior Notes due 2017 and 0.5% Convertible Senior Notes due 2020, and the impact of share-based compensation.

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

	December 28, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 809,003	\$ 986,246
Short-term marketable securities	1,455,509	1,919,611
Accounts receivable, net	842,476	682,809
Inventory	698,011	756,975
Deferred taxes	180,134	138,192
Other current assets	214,992	166,885
Total current assets	4,200,125	4,650,718
Long-term marketable securities	2,758,475	3,179,471
Property and equipment, net	724,357	655,794
Notes receivable and investments in Flash Ventures	962,817	1,134,620
Deferred taxes	161,827	134,669
Goodwill	831,328	318,111
Intangible assets, net	542,351	247,904
Other non-current assets	108,677	167,430
Total assets	\$ 10,289,957	\$ 10,488,717
LIABILITIES, CONVERTIBLE SHORT-TERM DEBT CONVERSION OBLIGATION AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 404,237	\$ 282,582
Accounts payable to related parties	136,051	146,964
Convertible short-term debt (1)	869,645	—
Other current accrued liabilities	506,293	509,732
Deferred income on shipments to distributors and retailers and deferred revenue	274,657	291,302
Total current liabilities	2,190,883	1,230,580
Convertible long-term debt	1,199,696	1,985,363
Non-current liabilities	245,554	307,083
Total liabilities	3,636,133	3,523,026
Convertible short-term debt conversion obligation (1)	127,143	—
Stockholders' equity:		
Common stock	5,236,982	5,040,242
Retained earnings	1,499,149	2,004,089
Accumulated other comprehensive loss	(208,072)	(76,459)
Total stockholders' equity	6,528,059	6,967,872
Non-controlling interests	(1,378)	(2,181)
Total equity	6,526,681	6,965,691
Total liabilities, convertible short-term debt conversion obligation and equity	\$ 10,289,957	\$ 10,488,717

(1) The 1.5% Convertible Senior Notes due 2017 are convertible through March 31, 2015 as a result of the Company's common stock price exceeding the trigger price set forth in the indenture. Accordingly, the carrying value of the notes is reported as short-term debt as of December 28, 2014 and will remain so while the notes are convertible. The Convertible short-term debt conversion obligation represents the difference between the carrying value of the convertible debt and the principal amount due in cash upon conversion.

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

	Three months ended		Twelve months ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Cash flows from operating activities:				
Net income	\$ 201,891	\$ 337,780	\$ 1,007,446	\$ 1,042,657
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	(14,699)	(52,727)	(7,915)	527
Depreciation	66,620	60,472	254,271	226,334
Amortization	93,244	65,775	324,231	237,731
Provision for doubtful accounts	180	1,669	857	2,167
Share-based compensation expense	40,639	27,431	155,313	99,756
Excess tax benefit from share-based plans	(6,143)	(7,299)	(44,919)	(27,198)
Impairment and other	6,270	(697)	6,790	75,561
Other non-operating	293	(1,566)	636	(792)
Changes in operating assets and liabilities:				
Accounts receivable, net	27,391	624	(118,606)	(51,125)
Inventory	83,886	19,214	136,442	23,310
Other assets	27,357	170,806	37,738	147,713
Accounts payable trade	(24,738)	(65,817)	37,380	16,377
Accounts payable to related parties	1,234	(16,867)	(10,913)	(67,842)
Other liabilities	(15,612)	78,017	(80,303)	138,496
Total adjustments	285,922	279,035	691,002	821,015
Net cash provided by operating activities	487,813	616,815	1,698,448	1,863,672
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(730,244)	(2,421,041)	(4,106,494)	(4,925,520)
Proceeds from sales of short and long-term marketable securities	493,294	576,178	4,114,712	3,701,528
Proceeds from maturities of short and long-term marketable securities	208,992	117,300	772,882	751,900
Acquisition of property and equipment, net	(67,145)	(42,700)	(232,786)	(213,415)
Investment in Flash Ventures	—	(12,342)	(24,296)	(12,342)
Notes receivable issuances to Flash Ventures	(49,789)	(37,099)	(181,481)	(37,099)
Notes receivable proceeds from Flash Ventures	104,654	51,377	231,409	124,765
Purchased technology and other assets	(20,248)	884	(24,837)	(8,377)
Acquisitions, net of cash acquired	—	—	(1,063,798)	(304,320)
Net cash used in investing activities	(60,486)	(1,767,443)	(514,689)	(922,880)
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	(3,212)	—	(3,212)	(928,061)
Distribution to non-controlling interests	—	—	—	(87)
Proceeds from employee stock programs	22,442	59,992	181,486	266,044
Excess tax benefit from share-based plans	6,143	7,299	44,919	27,198
Dividends paid	(65,122)	(50,553)	(234,565)	(101,191)
Share repurchases (1)	(503,406)	(150,000)	(1,341,476)	(1,589,539)
Net cash provided by (used in) financing activities	(543,155)	1,236,013	(1,352,848)	(956,361)
Effect of changes in foreign currency exchange rates on cash	(6,004)	(1,904)	(8,154)	6,345
Net increase (decrease) in cash and cash equivalents	(121,832)	83,481	(177,243)	(9,224)
Cash and cash equivalents at beginning of period	930,835	902,765	986,246	995,470
Cash and cash equivalents at end of period	\$ 809,003	\$ 986,246	\$ 809,003	\$ 986,246

(1) Share repurchases include cash used to repurchase common stock and cash used to settle employee tax withholding obligations due upon the vesting of restricted stock units.