

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 29, 2014</u>	<u>June 30, 2013</u>	<u>June 29, 2014</u>	<u>June 30, 2013</u>
Revenue	\$ 1,634,011	\$ 1,476,263	\$ 3,145,956	\$ 2,816,992
Cost of revenue	854,640	789,614	1,595,679	1,588,997
Amortization of acquisition-related intangible assets	19,721	9,830	39,337	19,660
Total cost of revenue	<u>874,361</u>	<u>799,444</u>	<u>1,635,016</u>	<u>1,608,657</u>
Gross profit	759,650	676,819	1,510,940	1,208,335
Operating expenses:				
Research and development	204,030	172,041	402,859	343,166
Sales and marketing	83,398	63,601	160,370	122,728
General and administrative	54,085	46,877	102,754	91,981
Amortization of acquisition-related intangible assets	1,481	1,742	3,127	4,111
Total operating expenses	<u>342,994</u>	<u>284,261</u>	<u>669,110</u>	<u>561,986</u>
Operating income	416,656	392,558	841,830	646,349
Other income (expense), net	<u>(13,579)</u>	<u>(9,101)</u>	<u>(29,214)</u>	<u>(28,998)</u>
Income before income taxes	403,077	383,457	812,616	617,351
Provision for income taxes	129,131	121,668	269,722	189,333
Net income	<u>\$ 273,946</u>	<u>\$ 261,789</u>	<u>\$ 542,894</u>	<u>\$ 428,018</u>
Net income per share:				
Basic	\$ 1.21	\$ 1.08	\$ 2.41	\$ 1.77
Diluted	\$ 1.14	\$ 1.06	\$ 2.28	\$ 1.74
Shares used in computing net income per share:				
Basic	225,544	241,519	225,694	242,019
Diluted	240,756	245,815	238,463	245,569

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

	Three months ended		Six months ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
<b>SUMMARY RECONCILIATION OF NET INCOME:</b>				
<b>GAAP NET INCOME</b>	\$ 273,946	\$ 261,789	\$ 542,894	\$ 428,018
Share-based compensation (a)	34,449	24,661	64,479	46,395
Amortization of acquisition-related intangible assets (b)	21,202	11,572	42,464	23,771
Convertible debt interest (c)	21,125	16,766	42,089	40,343
Income tax adjustments (d)	(22,023)	(15,816)	(33,197)	(32,658)
<b>NON-GAAP NET INCOME</b>	<u>\$ 328,699</u>	<u>\$ 298,972</u>	<u>\$ 658,729</u>	<u>\$ 505,869</u>
<b>GAAP COST OF REVENUE</b>	\$ 874,361	\$ 799,444	\$ 1,635,016	\$ 1,608,657
Share-based compensation (a)	(3,507)	(2,447)	(6,117)	(4,164)
Amortization of acquisition-related intangible assets (b)	(19,721)	(9,830)	(39,337)	(19,660)
<b>NON-GAAP COST OF REVENUE</b>	<u>\$ 851,133</u>	<u>\$ 787,167</u>	<u>\$ 1,589,562</u>	<u>\$ 1,584,833</u>
<b>GAAP GROSS PROFIT</b>	\$ 759,650	\$ 676,819	\$ 1,510,940	\$ 1,208,335
Share-based compensation (a)	3,507	2,447	6,117	4,164
Amortization of acquisition-related intangible assets (b)	19,721	9,830	39,337	19,660
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 782,878</u>	<u>\$ 689,096</u>	<u>\$ 1,556,394</u>	<u>\$ 1,232,159</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 204,030	\$ 172,041	\$ 402,859	\$ 343,166
Share-based compensation (a)	(17,500)	(12,704)	(33,175)	(24,344)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 186,530</u>	<u>\$ 159,337</u>	<u>\$ 369,684</u>	<u>\$ 318,822</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 83,398	\$ 63,601	\$ 160,370	\$ 122,728
Share-based compensation (a)	(7,204)	(4,701)	(13,461)	(8,572)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 76,194</u>	<u>\$ 58,900</u>	<u>\$ 146,909</u>	<u>\$ 114,156</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 54,085	\$ 46,877	\$ 102,754	\$ 91,981
Share-based compensation (a)	(6,238)	(4,809)	(11,726)	(9,315)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 47,847</u>	<u>\$ 42,068</u>	<u>\$ 91,028</u>	<u>\$ 82,666</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 342,994	\$ 284,261	\$ 669,110	\$ 561,986
Share-based compensation (a)	(30,942)	(22,214)	(58,362)	(42,231)
Amortization of acquisition-related intangible assets (b)	(1,481)	(1,742)	(3,127)	(4,111)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 310,571</u>	<u>\$ 260,305</u>	<u>\$ 607,621</u>	<u>\$ 515,644</u>
<b>GAAP OPERATING INCOME</b>	\$ 416,656	\$ 392,558	\$ 841,830	\$ 646,349
Cost of revenue adjustments (a) (b)	23,228	12,277	45,454	23,824
Operating expense adjustments (a) (b)	32,423	23,956	61,489	46,342
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 472,307</u>	<u>\$ 428,791</u>	<u>\$ 948,773</u>	<u>\$ 716,515</u>
<b>GAAP OTHER INCOME (EXPENSE), NET</b>	\$ (13,579)	\$ (9,101)	\$ (29,214)	\$ (28,998)
Convertible debt interest (c)	21,125	16,766	42,089	40,343
<b>NON-GAAP OTHER INCOME (EXPENSE), NET</b>	<u>\$ 7,546</u>	<u>\$ 7,665</u>	<u>\$ 12,875</u>	<u>\$ 11,345</u>
<b>GAAP NET INCOME</b>	\$ 273,946	\$ 261,789	\$ 542,894	\$ 428,018
Cost of revenue adjustments (a) (b)	23,228	12,277	45,454	23,824
Operating expense adjustments (a) (b)	32,423	23,956	61,489	46,342
Other income (expense) adjustments (c)	21,125	16,766	42,089	40,343
Income tax adjustments (d)	(22,023)	(15,816)	(33,197)	(32,658)
<b>NON-GAAP NET INCOME</b>	<u>\$ 328,699</u>	<u>\$ 298,972</u>	<u>\$ 658,729</u>	<u>\$ 505,869</u>
Diluted net income per share:				
GAAP	\$ 1.14	\$ 1.06	\$ 2.28	\$ 1.74
Non-GAAP	\$ 1.41	\$ 1.22	\$ 2.84	\$ 2.06
Shares used in computing diluted net income per share:				
GAAP	240,756	245,815	238,463	245,569
Non-GAAP (e)	232,808	244,586	231,570	245,300

**SanDisk Corporation**  
**Reconciliation of Preliminary GAAP to Non-GAAP Operating Results <sup>(1)</sup>**  
**(in thousands, unaudited)**

	Three months ended		Six months ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
<b>SUMMARY RECONCILIATION OF DILUTED SHARES</b>				
<b>GAAP</b>	240,756	245,815	238,463	245,569
Adjustments for share-based compensation	336	334	266	198
Offsetting shares from call option	(8,284)	(1,563)	(7,159)	(467)
<b>Non-GAAP (e)</b>	232,808	244,586	231,570	245,300

(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 and SMART Storage Systems in August 2013, 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, 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 developed technology, customer relationships and trademarks related to the acquisitions of Pliant Technology, Inc. (May 2011), FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012) and SMART Storage Systems (August 2013).

(c) 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.

(d) 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.

(e) 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)

	<b>June 29, 2014</b>	<b>December 29, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 885,115	\$ 986,246
Short-term marketable securities	1,794,356	1,919,611
Accounts receivable, net	759,967	682,809
Inventory	751,683	756,975
Deferred taxes	145,640	138,192
Other current assets	277,951	166,885
Total current assets	4,614,712	4,650,718
Long-term marketable securities	3,569,453	3,179,471
Property and equipment, net	650,223	655,794
Notes receivable and investments in Flash Ventures	1,174,998	1,134,620
Deferred taxes	112,366	134,669
Goodwill	317,930	318,111
Intangible assets, net	194,543	247,904
Other non-current assets	95,474	167,430
Total assets	\$ 10,729,699	\$ 10,488,717
<b>LIABILITIES, CONVERTIBLE SHORT-TERM DEBT CONVERSION OBLIGATION AND EQUITY</b>		
Current liabilities:		
Accounts payable trade	\$ 329,899	\$ 282,582
Accounts payable to related parties	151,244	146,964
Convertible short-term debt <sup>(1)</sup>	850,874	—
Other current accrued liabilities	354,657	509,732
Deferred income on shipments to distributors and retailers and deferred revenue	270,109	291,302
Total current liabilities	1,956,783	1,230,580
Convertible long-term debt	1,177,273	1,985,363
Non-current liabilities	295,737	307,083
Total liabilities	3,429,793	3,523,026
Convertible short-term debt conversion obligation <sup>(1)</sup>	149,126	—
Stockholders' equity:		
Common stock	5,189,183	5,040,242
Retained earnings	1,971,784	2,004,089
Accumulated other comprehensive loss	(7,992)	(76,459)
Total stockholders' equity	7,152,975	6,967,872
Non-controlling interests	(2,195)	(2,181)
Total equity	7,150,780	6,965,691
Total liabilities, convertible short-term debt conversion obligation and equity	\$ 10,729,699	\$ 10,488,717

<sup>(1)</sup> The 1.5% Sr. Convertible Notes due 2017 are convertible through September 30, 2014 as a result of the Company's common stock price exceeding the trigger price set forth in the indenture for at least 20 trading days during the 30 consecutive trading days ended June 30, 2014. Accordingly, the carrying value of the notes is reported as short-term debt as of June 29, 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		Six months ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
<b>Cash flows from operating activities:</b>				
Net income	\$ 273,946	\$ 261,789	\$ 542,894	\$ 428,018
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	641	12,343	7,592	65,494
Depreciation	61,364	55,195	121,453	108,212
Amortization	72,996	56,095	145,594	121,246
Provision for doubtful accounts	388	1,339	(159)	1,142
Share-based compensation expense	34,449	24,661	64,479	46,395
Excess tax benefit from share-based plans	(10,552)	(7,211)	(28,012)	(15,661)
Impairment and other	—	(2,343)	—	(5,516)
Other non-operating	(312)	(496)	708	(360)
Changes in operating assets and liabilities:				
Accounts receivable, net	(163,687)	(197,936)	(76,998)	(11,210)
Inventory	48,562	10,731	6,445	27,507
Other assets	(55,066)	41,729	(519)	21,573
Accounts payable trade	49,795	12,472	13,249	15,370
Accounts payable to related parties	(9,292)	(8,886)	4,280	(46,787)
Other liabilities	(62,372)	131,311	(178,067)	109,021
Total adjustments	(33,086)	129,004	80,045	436,426
Net cash provided by operating activities	240,860	390,793	622,939	864,444
<b>Cash flows from investing activities:</b>				
Purchases of short and long-term marketable securities	(1,511,635)	(846,740)	(2,778,534)	(1,997,087)
Proceeds from sales of short and long-term marketable securities	1,078,061	1,334,305	2,093,666	1,847,659
Proceeds from maturities of short and long-term marketable securities	249,875	213,700	379,495	506,905
Acquisition of property and equipment, net	(44,149)	(71,497)	(78,666)	(119,849)
Investment in Flash Ventures	(24,296)	—	(24,296)	—
Notes receivable issuances to Flash Ventures	(63,607)	—	(87,959)	—
Notes receivable proceeds from Flash Ventures	87,952	19,802	112,304	73,388
Purchased technology and other assets	(684)	(3,671)	(1,553)	(3,908)
Acquisitions, net of cash acquired	—	—	2,368	(142)
Net cash provided by (used in) investing activities	(228,483)	645,899	(383,175)	306,966
<b>Cash flows from financing activities:</b>				
Repayment of debt financing	—	(928,061)	—	(928,061)
Distribution to non-controlling interests	—	—	—	(87)
Proceeds from employee stock programs	51,682	69,941	103,564	163,016
Excess tax benefit from share-based plans	10,552	7,211	28,012	15,661
Dividends paid	(50,838)	—	(102,398)	—
Share repurchases <sup>(1)</sup>	(256,996)	(280,373)	(371,448)	(369,994)
Net cash used in financing activities	(245,600)	(1,131,282)	(342,270)	(1,119,465)
Effect of changes in foreign currency exchange rates on cash	1,400	611	1,375	6,716
Net increase (decrease) in cash and cash equivalents	(231,823)	(93,979)	(101,131)	58,661
Cash and cash equivalents at beginning of period	1,116,938	1,148,110	986,246	995,470
Cash and cash equivalents at end of period	\$ 885,115	\$ 1,054,131	\$ 885,115	\$ 1,054,131

<sup>(1)</sup> 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.