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

	Three months ended	
	March 30, 2014	**March 31, 2013**
Revenue	$ 1,511,945	$ 1,340,729
Cost of revenue	741,039	799,383
Amortization of acquisition-related intangible assets	19,616	9,830
Total cost of revenue	760,655	809,213
Gross profit	751,290	531,516
Operating expenses:		
Research and development	198,829	171,125
Sales and marketing	76,972	59,127
General and administrative	48,669	45,104
Amortization of acquisition-related intangible assets	1,646	2,369
Total operating expenses	326,116	277,725
Operating income	425,174	253,791
Other income (expense), net	(15,635)	(19,897)
Income before income taxes	409,539	233,894
Provision for income taxes	140,591	67,665
Net income	$ 268,948	$ 166,229
Net income per share:		
Basic	$ 1.19	$ 0.69
Diluted	$ 1.14	$ 0.68
Shares used in computing net income per share:		
Basic	225,845	242,519
Diluted	234,914	245,577

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

	Three months ended	
	March 30, 2014	March 31, 2013
SUMMARY RECONCILIATION OF NET INCOME		
GAAP NET INCOME	$ 268,948	$ 166,229
Share-based compensation (a)	30,030	21,734
Amortization of acquisition-related intangible assets (b)	21,262	12,199
Convertible debt interest (c)	20,964	23,577
Income tax adjustments (d)	(11,174)	(16,842)
NON-GAAP NET INCOME	$ 330,030	$ 206,897
GAAP COST OF REVENUE	$ 760,655	$ 809,213
Share-based compensation (a)	(2,610)	(1,717)
Amortization of acquisition-related intangible assets (b)	(19,616)	(9,830)
NON-GAAP COST OF REVENUE	$ 738,429	$ 797,666
GAAP GROSS PROFIT	$ 751,290	$ 531,516
Share-based compensation (a)	2,610	1,717
Amortization of acquisition-related intangible assets (b)	19,616	9,830
NON-GAAP GROSS PROFIT	$ 773,516	$ 543,063
GAAP RESEARCH AND DEVELOPMENT EXPENSES	$ 198,829	$ 171,125
Share-based compensation (a)	(15,675)	(11,640)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	$ 183,154	$ 159,485
GAAP SALES AND MARKETING EXPENSES	$ 76,972	$ 59,127
Share-based compensation (a)	(6,257)	(3,871)
NON-GAAP SALES AND MARKETING EXPENSES	$ 70,715	$ 55,256
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	$ 48,669	$ 45,104
Share-based compensation (a)	(5,488)	(4,506)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	$ 43,181	$ 40,598
GAAP TOTAL OPERATING EXPENSES	$ 326,116	$ 277,725
Share-based compensation (a)	(27,420)	(20,017)
Amortization of acquisition-related intangible assets (b)	(1,646)	(2,369)
NON-GAAP TOTAL OPERATING EXPENSES	$ 297,050	$ 255,339
GAAP OPERATING INCOME	$ 425,174	$ 253,791
Cost of revenue adjustments (a) (b)	22,226	11,547
Operating expense adjustments (a) (b)	29,066	22,386
NON-GAAP OPERATING INCOME	$ 476,466	$ 287,724
GAAP OTHER INCOME (EXPENSE), NET	$ (15,635)	$ (19,897)
Convertible debt interest (c)	20,964	23,577
NON-GAAP OTHER INCOME (EXPENSE), NET	$ 5,329	$ 3,680
GAAP NET INCOME	$ 268,948	$ 166,229
Cost of revenue adjustments (a) (b)	22,226	11,547
Operating expense adjustments (a) (b)	29,066	22,386
Other income (expense) adjustments (c)	20,964	23,577
Income tax adjustments (d)	(11,174)	(16,842)
NON-GAAP NET INCOME	$ 330,030	$ 206,897
Diluted net income per share:		
GAAP	$ 1.14	$ 0.68
Non-GAAP	$ 1.44	$ 0.84
Shares used in computing diluted net income per share:		
GAAP	234,914	245,577
Non-GAAP (e)	229,508	245,596

SanDisk Corporation

Reconciliation of Preliminary GAAP to Non-GAAP Operating Results [1]

(in thousands, unaudited)

	Three months ended	
SUMMARY RECONCILIATION OF DILUTED SHARES	**March 30, 2014**	**March 31, 2013**
GAAP	234,914	245,577
Adjustments for share-based compensation	296	19
Offsetting shares from call option	(5,702)	—
Non-GAAP (e)	229,508	245,596

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(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 core technology, 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)

	March 30, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,116,938	$ 986,246
Short-term marketable securities	1,692,801	1,919,611
Accounts receivable, net	596,669	682,809
Inventory	799,883	756,975
Deferred taxes	124,200	138,192
Other current assets	177,532	166,885
Total current assets	4,508,023	4,650,718
Long-term marketable securities	3,508,081	3,179,471
Property and equipment, net	639,653	655,794
Notes receivable and investments in Flash Ventures	1,159,264	1,134,620
Deferred taxes	136,991	134,669
Goodwill	317,930	318,111
Intangible assets, net	221,099	247,904
Other non-current assets	95,330	167,430
Total assets	$ 10,586,371	$ 10,488,717
LIABILITIES, CONVERTIBLE SHORT-TERM DEBT CONVERSION OBLIGATION AND EQUITY		
Current liabilities:		
Accounts payable trade	$ 259,204	$ 282,582
Accounts payable to related parties	160,536	146,964
Convertible short-term debt [(1)]	840,180	—
Other current accrued liabilities	349,126	509,732
Deferred income on shipments to distributors and retailers and deferred revenue	269,349	291,302
Total current liabilities	1,878,395	1,230,580
Convertible long-term debt	1,166,497	1,985,363
Non-current liabilities	311,334	307,083
Total liabilities	3,356,226	3,523,026
Convertible short-term debt conversion obligation [(1)]	159,820	—
Stockholders' equity:		
Common stock	4,961,893	5,040,242
Retained earnings	2,150,583	2,004,089
Accumulated other comprehensive loss	(40,038)	(76,459)
Total stockholders' equity	7,072,438	6,967,872
Non-controlling interests	(2,113)	(2,181)
Total equity	7,070,325	6,965,691
Total liabilities, convertible short-term debt conversion obligation and equity	$ 10,586,371	$ 10,488,717

(1) The 1.5% Convertible Senior Notes due 2017 became convertible on April 1, 2014, and will remain convertible through June 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-day period ended March 31, 2014. Accordingly, the carrying value of the notes was reclassified from long-term to short-term debt as of March 30, 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	
	March 30, 2014	March 31, 2013
Cash flows from operating activities:		
Net income	$ 268,948	$ 166,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	6,951	53,151
Depreciation	60,089	53,017
Amortization	72,598	65,151
Provision for doubtful accounts	(547)	(197)
Share-based compensation expense	30,030	21,734
Excess tax benefit from share-based plans	(17,460)	(8,450)
Impairment and other	—	(3,173)
Other non-operating	1,020	136
Changes in operating assets and liabilities:		
Accounts receivable, net	86,689	186,726
Inventory	(42,117)	16,776
Other assets	54,547	(20,156)
Accounts payable trade	(36,546)	2,898
Accounts payable to related parties	13,572	(37,901)
Other liabilities	(140,128)	(22,290)
Total adjustments	88,698	307,422
Net cash provided by operating activities	357,646	473,651
Cash flows from investing activities:		
Purchases of short and long-term marketable securities	(1,266,899)	(1,150,347)
Proceeds from sales of short and long-term marketable securities	1,015,605	513,354
Proceeds from maturities of short and long-term marketable securities	129,620	293,205
Acquisition of property and equipment, net	(34,517)	(48,352)
Notes receivable issuances to Flash Ventures	(24,352)	—
Notes receivable proceeds from Flash Ventures	24,352	53,586
Purchased technology and other assets	(869)	(237)
Acquisitions, net of cash acquired	2,368	(142)
Net cash used in investing activities	(154,692)	(338,933)
Cash flows from financing activities:		
Distribution to non-controlling interests	—	(87)
Proceeds from employee stock programs	51,882	93,075
Excess tax benefit from share-based plans	17,460	8,450
Dividends paid	(51,560)	—
Share repurchase program	(90,019)	(89,621)
Net cash provided by (used in) financing activities	(72,237)	11,817
Effect of changes in foreign currency exchange rates on cash	(25)	6,105
Net increase in cash and cash equivalents	130,692	152,640
Cash and cash equivalents at beginning of period	986,246	995,470
Cash and cash equivalents at end of period	$ 1,116,938	$ 1,148,110