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

	Three months ended				
	Ma	rch 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 GAAP to Non-GAAP Operating Results (1) (in thousands, except per share data, unaudited)

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

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

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

- (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 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 CONVER	SION OBLIGA	TIUDA UND EQUIT	Y	
Current liabilities:	•	050.004	•	200 500
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

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

	Three months ended				
	Mai	ch 30, 2014	March 31, 2013		
Cash flows from operating activities:	•	000 040	•	400,000	
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		(17,100)		(3,173)	
Other non-operating		1,020		136	
		1,020		130	
Changes in operating assets and liabilities:		00.000		400 700	
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		(115,695)		(22,290)	
Total adjustments		113,131		307,422	
Net cash provided by operating activities		382,079		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)		(10,002)	
Notes receivable issuances to Hash 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 repurchases		(114,452)		(89,621)	
Net cash provided by (used in) financing activities		(96,670)		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	