SanDisk Fourth Quarter and Fiscal 2015 Results

January 27, 2016

SanDisk®

Forward-Looking Statements

This presentation contains certain forward-looking statements, including those regarding our expectations for: GAAP and non-GAAP financial results in Q1 2016; our financial, operational and strategic plans and priorities; gaining customer interest in and qualification and adoption of our products; product introductions; customer deployments; continued strengthening of product portfolio; market position; improving product execution; strengthening customer engagements; product and product category share and revenue growth and market position; diversification of sales; industry trends, such as SSD attach rates; factory output timing, focus, production ramp and start-up costs; 3D NAND development, conversion, production ramp, output timing, costs, mix and usage; cost reduction; broadening adoption of X3 technology; bit supply; scalability of 2D NAND; wafer capacity additions, technology transitions and technology mix; continued engagements with strategic partners; anticipated benefits of the pending merger of SanDisk Corporation with Western Digital Corporation's wholly owned subsidiary, Schrader Acquisition Corporation; expected date of closing of the merger; the modification and termination of warrants in anticipation of the merger and timing of cash payments; level of Available Cash and ability to meet relevant targets in the merger agreement with Western Digital; foreign currency exchange rates; price decline; tax rate in 2016; increased share count; capital investment plans and cash usage; and continued use of joint venture equipment lease financing, that are based on our current expectations and involve numerous risks and uncertainties that may cause these forward-looking statements to be inaccurate. Risks that may cause these forward-looking statements to be inaccurate include, among others: (a) the announcement and pendency of our merger agreement with Western Digital or the failure of the pending merger to be completed on a timely basis, or at all, or any materially burdensome conditions that may be imposed; (b) inability to complete the merger due to the failure to obtain stockholder approval for the merger or the failure to satisfy other conditions to completion of the merger, including the receipt of all regulatory approvals related to the merger; (c) uncertainties as to the timing of the consummation of the merger and the ability of each party to consummate the merger; (d) failure to effectively or efficiently execute on our financial, operational or strategic plans or priorities, which may change, may not have the effects that we anticipate or otherwise be successful on the timeline that we expect or at all or may have unanticipated consequences; (e) changes in industry supply and demand environment, and production and pricing levels being different than what we anticipate; (f) competitive pricing pressures or product mix changes, resulting in lower average selling prices, lower revenues and reduced margins; (g) excess or mismatched captive memory output, capacity or inventory, resulting in lower average selling prices, financial charges and impairments, lower gross margin or other consequences, or insufficient or mismatched captive memory output, capacity or inventory, resulting in lost revenue and growth opportunities; (h) inability to reduce product costs to keep pace with reductions in average selling prices, resulting in lower or negative product gross margin; (i) potential delays in product development or lack of customer acceptance and qualification of our solutions, including on new technologies, particularly enterprise solutions, client SSDs and embedded flash storage solutions; (j) weakness in demand in one or more of our product categories, such as embedded products or SSDs, or adverse changes in our product or customer mix; (k) failure to successfully sell enterprise solutions on the timelines or in the quantities we expect or transition our enterprise customers to our leading edge solutions; (l) failure or delays in making new products or technologies available in the manner and capacities we anticipate, whether due to technology or supply chain difficulties or other factors; (m) inability to develop, or unexpected difficulties or delays in developing or ramping with acceptable yields, new technologies, such as 3D NAND technology, or the failure of new technologies to effectively compete with those of our competitors; (n) our 15 nanometer process technology, our X3 NAND memory architecture, our 3D NAND technology or our solutions utilizing these new technologies may not be available when we expect, in the capacities we expect or perform as expected; (o) failure to manage the risks associated with our ventures, strategic partnerships and commercial relationships, such as with Toshiba, Hewlett Packard and SK Hynix, including the risk of early termination; (p) inability to achieve the expected benefits from acquisitions and strategic relationships in a timely manner, or at all; (q) industry and technology trends not occurring in the timeline we anticipate or at all; and (r) the other risks detailed from time-to-time under the caption "Risk Factors" and elsewhere in our Securities and Exchange Commission filings and reports, including, but not limited to, our Quarterly Report on Form 10-Q for the quarter ended September 27, 2015, and the preliminary joint proxy statement/prospectus included in the Registration Statement on Form S-4 filed by Western Digital Corporation on January 27, 2016.

The Q4 and fiscal 2015 results and metrics contained in this presentation are preliminary and could be adjusted or otherwise changed.

All statements made in this presentation are made only as of the date of this presentation. We undertake no obligation to update the information in this presentation in the event facts or circumstances change after the date of this presentation.

All references to annual and quarterly periods refer to our fiscal year and fiscal quarters.

Q4 & FY 2015
Results & Metrics

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Q4 & FY 2015 Summary P&L Results

	Q4 2015	Q3 2015	Q4 2014	FY 2015	FY 2014
Revenue *($ in billions)*	$1.54	$1.45	$1.74	$5.56	$6.63
Non-GAAP Gross Margin[1a]	43%	44%	45%	43%	48%
Non-GAAP Operating Expenses[1a] as a % of revenue	21%	22%	21%	24%	20%
Non-GAAP Operating Margin[1a]	22%	22%	24%	19%	28%
Non-GAAP EPS[1a][1b]	$1.26	$1.09	$1.30	$3.61	$5.60

[1a][1b] See Endnotes for further information

Q4 & FY 2015 Key Balance Sheet and Cash Flow Metrics

($ in millions)	Q4 2015	Q3 2015	Q4 2014	FY 2015	FY 2014
Net cash provided by operating activities	$434	$275	$488	$1,047	$1,698
Capital Investments					
Acquisition of property and equipment, net	($131)	($89)	($67)	($414)	($233)
Change in investment and notes receivable activity with Flash Ventures	($27)	($16)	$55	($38)	$26
Total Capital Investments	($158)	($104)	($12)	($452)	($207)
Free Cash Flow[2a]	$276	$171	$476	$595	$1,491
Capital Return Program					
Dividends	($0)	($62)	($65)	($189)	($235)
Share repurchases	($0)	($250)	($501)	($1,250)	($1,300)
Share repurchases for employee tax withholding obligations	($3)	($5)	($3)	($45)	($41)
Total Capital Return Program	($3)	($317)	($569)	($1,484)	($1,576)
Cash, cash equivalents, short and long-term marketable securities	$4,123	$3,875	$5,023	$4,123	$5,023
Net cash[2b]	$1,627	$1,378	$2,526	$1,627	$2,526
Fab operating lease guarantees (off-balance sheet)	$766	$766	$551	$766	$551

Calculation of subtotals and totals may not agree to the sum of the components presented due to rounding

[2a][2b] See Endnotes for further information

Outlook[a]

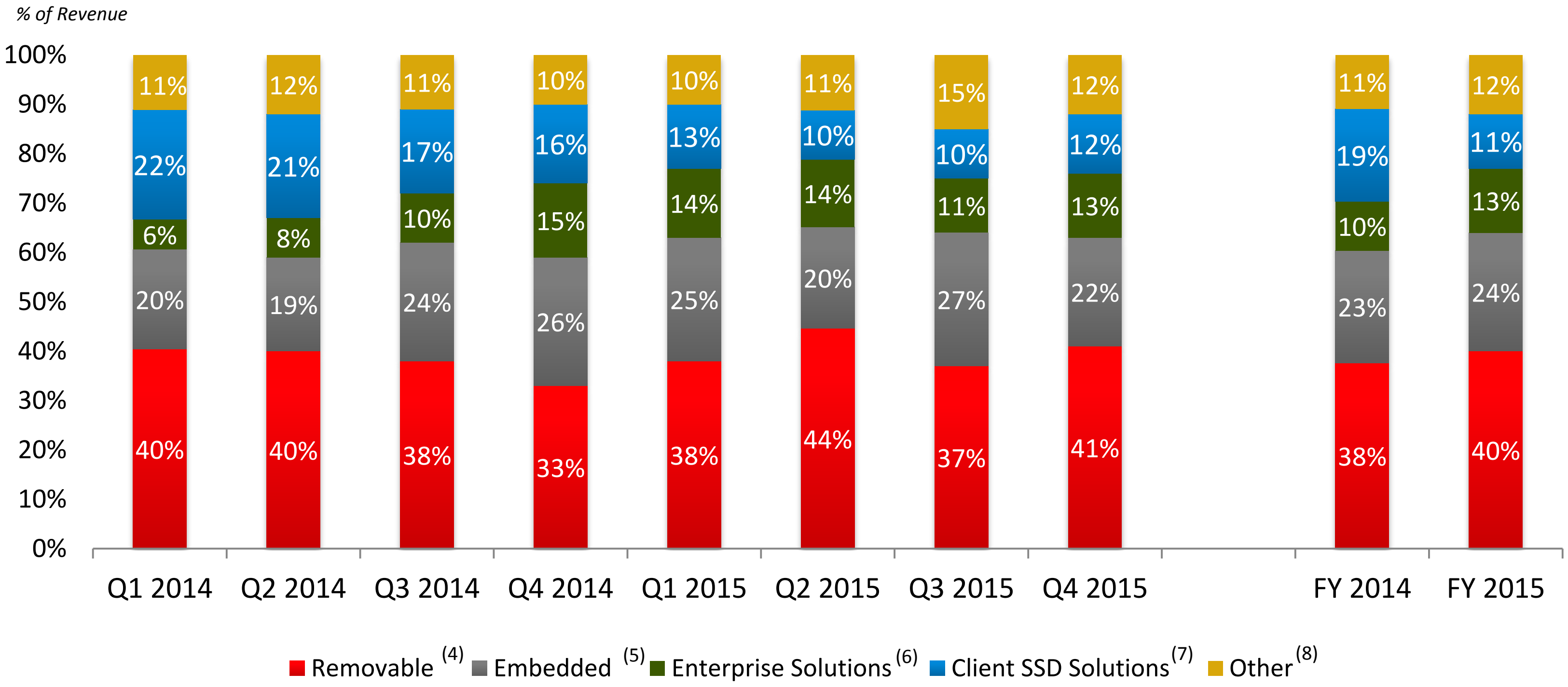
($ in millions, except percentages)

Q1 2016	Non-GAAP	GAAP
Revenue	$1,175 - $1,250	$1,175 - $1,250
Gross Margin [2]	39% - 42%	36% - 39%
Operating Expenses [3]	$325 - $335	$400 - $410
Other Income (Expense) [4]	Similar to Q4 2015	N/A [6]
Tax rate [5]	~31%	N/A [7]

[a] This guidance is exclusive of one-time transactions and does not reflect the effect of any acquisitions, divestitures or other transactions that may be announced after January 27, 2016.

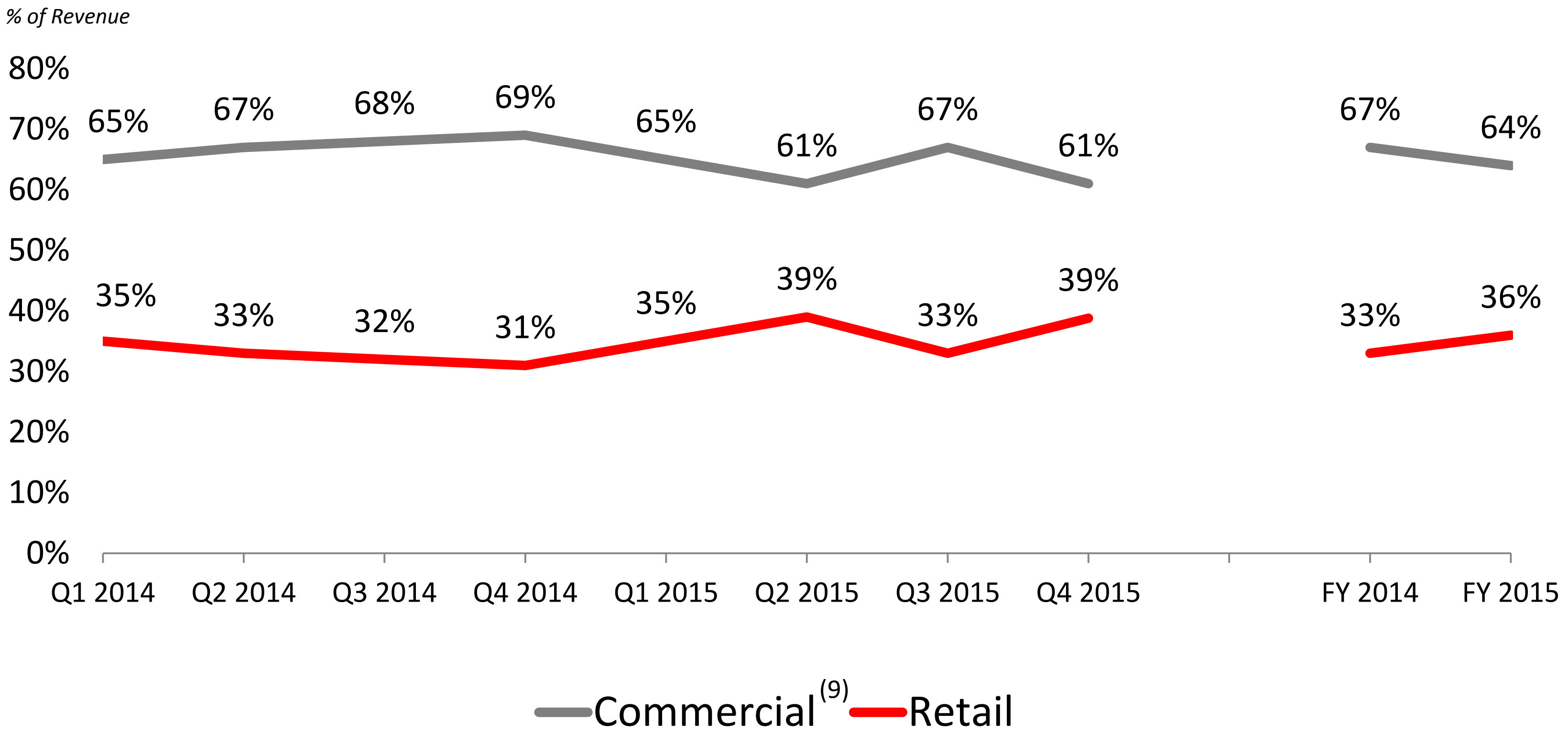
[2] – [7] See Appendix, slide 26 for details of footnote explanations

Revenue Mix[3] by Category



Percentages may not add to 100% due to rounding
(3)-(8) See Endnotes for further information.

Revenue Mix[3] by Channel



[3][9] See Endnotes for further information

Quarterly & Annual Metrics

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2014	FY 2015
Q/Q change in gigabytes sold	-10%	31%	9%	4%	-15%	-1%	49%	23%		
Y/Y change in gigabytes sold	20%	51%	43%	32%	24%	-6%	30%	53%	36%	26%
Q/Q change in ASP/gigabyte	-3%	-16%	-3%	-4%	-10%	-6%	-22%	-10%		
Y/Y change in ASP/gigabyte	-7%	-26%	-26%	-24%	-29%	-21%	-37%	-41%	-22%	-34%
Q/Q change in cost/gigabyte[10]	-3%	-12%	-3%	3%	-6%	-4%	-24%	-12%		
Y/Y change in cost/gigabyte[10]	-23%	-28%	-23%	-15%	-17%	-10%	-29%	-40%	-22%	-27%
Average gigabyte/unit	13.9	14.1	16.5	22.3	20.8	19.2	23.5	23.9	16.4	22.2
As of end of period:										
Factory headcount[11] [12]	1,366	2,874	3,276	3,284	3,149	3,149	3,322	3,456	3,284	3,456
Non-factory headcount[13]	4,490	4,664	5,461	5,412	5,490	5,371	5,292	5,334	5,412	5,334
Total headcount	5,586	7,538	8,737	8,696	8,639	8,520	8,614	8,790	8,696	8,790

[10]-[13] See Endnotes for further information

Q4 2015
Business Review

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Product Updates

- Enterprise Solutions
  - Revenue grew 29% sequentially driven by customer shipments across SAS, SATA and PCIe interfaces
  - Fusion-io based PCIe solutions revenue reached post-acquisition record
  - 15nm 2 terabyte enterprise SATA SSDs gaining excellent adoption
    - Enterprise SATA sales to hyperscale customers more than doubled sequentially
  - 4 terabyte Optimus Max™ enterprise SAS drove overall sequential revenue growth in SAS category
    - 15nm 12 Gb/s enterprise SAS SSDs on track for introduction later in 2016
  - InfiniFlash™ System customer and partner interest growing, expect acceleration of customer deployments in 2016
- Client SSDs
  - Revenue grew 33% sequentially in retail and commercial channels combined
  - Began volume shipments for 15nm X2 client SSDs with certain OEMs, additional qualifications underway
  - Began shipments of our 15nm X3 client SATA SSDs in retail and commercial channels, several OEMs began qualifications
  - Client SSD attach rate for corporate laptops exiting 2015 was in high-30% range, expected to surpass 50% in 2017

Product Updates

- Embedded Solutions
  - Revenue declined sequentially due to weaker than expected smartphone market and early stages of X3 adoption for eMMC solutions
  - Shifted memory supply away from aggressively priced, lower-capacity embedded multi-chip package products that combine DRAM and flash to more profitable product opportunities
- Retail
  - Revenue grew 24% sequentially driven by strong holiday season across all geographies and product categories
  - Gained retail market share in all product categories, sequentially and year-over-year in Q4 2015
- Connected Home, Industrial and Auto
  - 2015 revenue grew more than 50% year-over-year driven by iNAND® embedded and SD™ removable solutions

Technology & Manufacturing Updates

- 2D NAND
  - Mix of 15nm technology approximately 75% of total bit supply in Q4 2015
  - Achieved record yields on 15nm for any NAND technology in our history
  - Mix of using X3-based product sales reached 70% in Q4 2015
- 3D NAND
  - Shipped initial quantities of 48-layer, X3, 3D NAND in retail products and first OEM customer samples
  - Began 3D NAND conversion in New Fab 2 in January, with initial output expected later in Q1 2016
  - 3D NAND costs expected to be similar to 2D 15nm exiting 2016, with the next-generation 3D NAND achieving lower cost versus 2D NAND in 2017
- Supply
  - 2015 Y/Y industry supply bit growth was in the mid-40% range, SanDisk bit supply growth approximately 51%
  - 2016 Y/Y industry bit supply growth expected to be in the low-30% range, given: 2D NAND scaling reaches its limits, and 3D NAND is expected to represent about 15% to 20% of industry wafer capacity exiting the year
  - 2016 Y/Y SanDisk captive bit supply growth expected to be somewhat lower than industry bit supply growth
  - Planning to add 5% additional wafer capacity in mid-2016, consisting of a mix of both 2D and 3D NAND technologies

Key 2015 Takeaways

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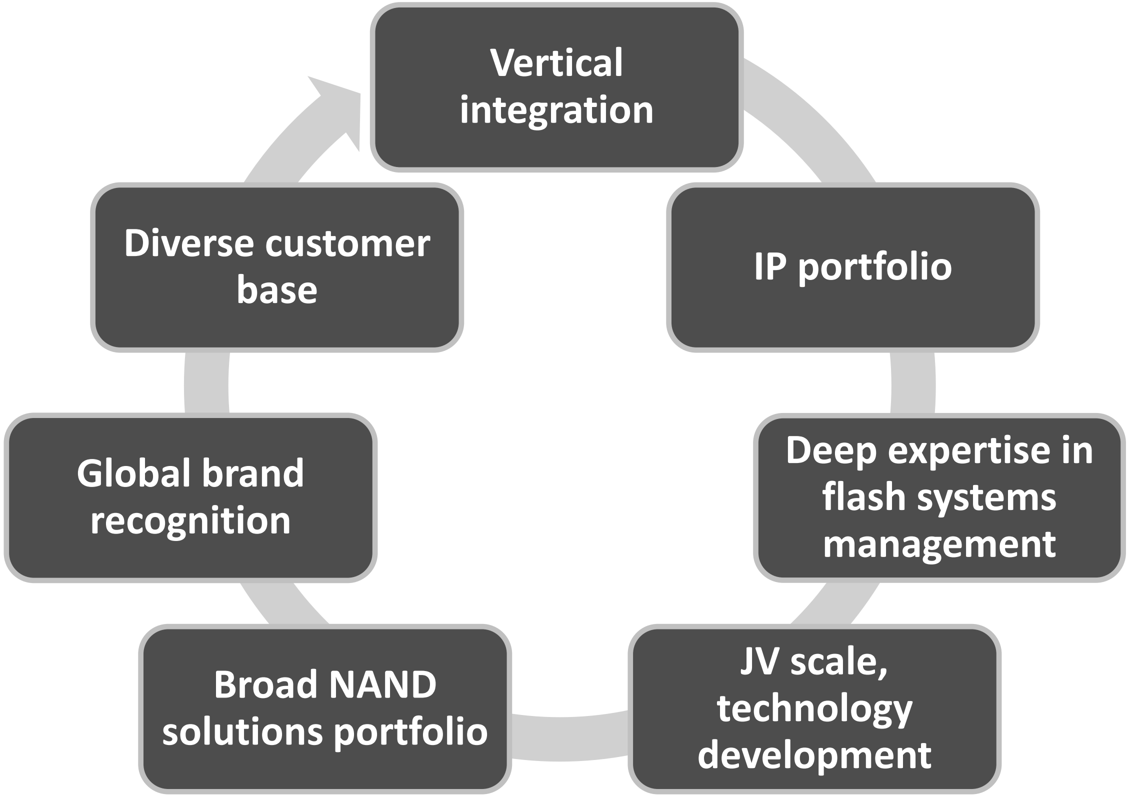
- Substantial progress in reinvigorating product portfolio, improving product execution and strengthening customer engagements
- Record yields on 15nm 2D NAND, initial shipments of 3D NAND in retail and OEM customer samples
- Signed strategic agreements with SK Hynix, Hewlett Packard Enterprise and Toshiba
- Pending acquisition by Western Digital will create a unique and global leader in storage solutions

SanDisk Key Strengths



Endnotes, Appendices

- Endnotes
- Basis of presentation for Non-GAAP to GAAP Operating Results
- Reconciliations of Non-GAAP to GAAP Statements of Operations
- Reconciliation of GAAP to Non-GAAP Cost of Revenue
- Reconciliation of GAAP Cash Flows from Operations to Free Cash Flow
- Reconciliation of Non-GAAP to GAAP Outlook

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Endnotes

[1a] Gross margin, operating expenses, operating margin and EPS are non-GAAP excluding the impact of share-based compensation, inventory step-up expense, amortization and impairment of acquisition-related intangible assets, Western Digital acquisition-related expenses, gains and losses related to the shortened duration or liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital, non-cash economic interest expense associated with the convertible senior notes, non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017 and related tax adjustments. See appendices for a reconciliation of non-GAAP to GAAP financials. Gross margin and operating margin are a percent of the revenue for the period shown.

[1b] Non-GAAP shares are adjusted for the impact of expensing share-based compensation and include the impact of offsetting shares from the call options related to the convertible senior notes.

[2a] Free cash flow is defined as net cash provided by operating activities less (a) acquisition of property and equipment, net, and (b) net investments and notes receivables activity with Flash Ventures.

[2b] Net cash equals cash, cash equivalents, short and long-term marketable securities less the principal amount of SanDisk's outstanding convertible debt.

[3] Revenue by category and by channel are estimated based on analysis of the information SanDisk collects in its sales reporting processes.

[4] Removable includes products such as cards, USB flash drives and audio/video players.

[5] Embedded includes products that attach to a host system board.

[6] Enterprise Solutions includes SSDs, systems solutions and software used in data center applications.

[7] Client SSD Solutions includes SSDs used in client devices and associated software.

[8] Other includes wafers, components, accessories and license and royalties.

[9] Commercial includes revenue from OEMs, system integrators, value-added resellers, direct sales, and license and royalties.

[10] Cost per gigabyte and cost reduction are non-GAAP and are computed from non-GAAP cost of revenue. See appendices for a reconciliation of non-GAAP to GAAP cost of revenue.

[11] Reflects SanDisk China and Malaysia factory employees, excluding temporary and contract workers.

[12] During 2014, 1,505 employees were converted from contractor to employee status in SanDisk's assembly and test facility in China.

[13] Reflects SanDisk non-factory employees, excluding temporary and contract workers.

Basis of Presentation for Non-GAAP to GAAP Operating Results

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, impairment of acquisition-related in-process research and development intangible assets, Western Digital Corporation acquisition-related expenses, gains and losses related to the shortened duration or liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital, non-cash economic interest expense associated with the convertible senior notes, non-cash change in fair value of the liability component of the convertible senior notes 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 are adjusted for the impact of expensing share-based compensation and include the impact of the call options which, when exercised, will offset the issuance of dilutive shares from the convertible senior notes, while our 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 charges, such as share-based compensation, amortization of acquisition-related intangible assets, inventory step-up expense, impairment of acquisition-related in-process research and development intangible assets, Western Digital acquisition-related expenses, gains and losses related to the shortened duration or liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital, non-cash economic interest expense associated with the convertible senior notes, non-cash change in fair value of the liability component of the convertible senior notes 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.

Reconciliation of Non-GAAP to GAAP Statements of Operations

Three months ended January 3, 2016

(in thousands, except percentages and per share amounts, unaudited)

	Q4'15 Non-GAAP	% of Rev	Share-based Compen-sation	Purchase Acctg Adj	Western Digital Aquisition Related	Convertible Debt Adj	Other	Q4'15 GAAP	% of Rev
Revenue	**$ 1,543,150**	**100.0%**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,543,150**	**100.0%**
Cost of revenue	884,729	57.3%	4,743 (a)	—	—	—	—	889,472	57.6%
Amortization of acquisition-related intangible assets	—	—%	—	28,820 (b)	—	—	—	28,820	1.9%
Total cost of revenue	884,729	57.3%	4,743	28,820	—	—	—	918,292	59.5%
Gross profit	658,421	42.7%	(4,743)	(28,820)	—	—	—	624,858	40.5%
Operating expenses:									
Research and development	206,789	13.4%	23,674 (a)	—	—	—	—	230,463	14.9%
Sales and marketing	83,435	5.4%	9,416 (a)	—	—	—	—	92,851	6.0%
General and administrative	33,174	2.1%	7,375 (a)	—	—	—	—	40,549	2.6%
Amortization of acquisition-related intangible assets	—	—%	—	12,731 (b)	—	—	—	12,731	0.8%
Restructuring and other	2,090	0.1%	—	—	—	—	—	2,090	0.1%
Western Digital acquisition-related expenses	—	—%	—	—	28,065 (c)	—	—	28,065	1.8%
Total operating expenses	325,488	21.1%	40,465	12,731	28,065	—	—	406,749	26.4%
Operating income	332,933	21.6%	(45,208)	(41,551)	(28,065)	—	—	218,109	14.1%
Other income (expense), net	(1,335)	(0.1%)	—	—	(920) (d)	(25,207) (e)	—	(27,462)	(1.8%)
Income before income taxes	331,598	21.5%	(45,208)	(41,551)	(28,985)	(25,207)	—	190,647	12.4%
Provision for income taxes (f)	74,679	4.8%	(12,353)	(12,612)	(10,521)	(9,088)	25,073	55,178	3.6%
Net income	**$ 256,919**	**16.6%**	**$ (32,855)**	**$ (28,939)**	**$ (18,464)**	**$ (16,119)**	**$ (25,073)**	**$ 135,469**	**8.8%**
Net income per share, diluted	**$ 1.26**							**$ 0.65**	
Diluted shares used in computing net income per share	203,228		10 (g)			5,863 (h)		209,101	
Effective tax rate (f)	22.5%		27.3%	30.4%	36.3%	36.1%		28.9%	

(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 FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012), SMART Storage Systems (August 2013) and Fusion-io, Inc. (July 2014).
(c) Incremental expense related to the pending acquisition of SanDisk by Western Digital, primarily for transaction, legal, employee-related and other costs.
(d) Gains and losses related to the shortened duration and expected liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital.
(e) Incremental interest expense related to the non-cash economic interest expense associated with the convertible senior notes and the non-cash change in fair value of the liability component of the convertible senior notes 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 the non-GAAP tax rate but not in the forecasted GAAP tax rate.
(g) Adjustment for the impact of expensing share-based compensation.
(h) Adjustment for the impact of offsetting shares from the call options related to the convertible senior notes.

Reconciliation of Non-GAAP to GAAP Statements of Operations

Twelve months ended January 3, 2016

(in thousands, except percentages and per share amounts, unaudited)

	FY'15 Non-GAAP	% of Rev	Share-based Compen-sation	Purchase Acctg Adj	Western Digital Aquisition Related	Convertible Debt Adj	Other	FY'15 GAAP	% of Rev
Revenue	**$ 5,564,872**	**100.0%**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 5,564,872**	**100.0%**
Cost of revenue	3,177,277	57.1%	19,306 (a)	—	—	—	—	3,196,583	57.4%
Amortization of acquisition-related intangible assets	—	—%	—	111,220 (b)	—	—	—	111,220	2.0%
Total cost of revenue	3,177,277	57.1%	19,306	111,220	—	—	—	3,307,803	59.4%
Gross profit	2,387,595	42.9%	(19,306)	(111,220)	—	—	—	2,257,069	40.6%
Operating expenses:									
Research and development	795,616	14.3%	87,626 (a)	—	—	—	—	883,242	15.9%
Sales and marketing	349,794	6.3%	37,600 (a)	—	—	—	—	387,394	7.0%
General and administrative	146,278	2.6%	27,864 (a)	—	—	—	—	174,142	3.1%
Amortization of acquisition-related intangible assets	—	—%	—	53,349 (b)	—	—	—	53,349	1.0%
Impairment of acquisition-related intangible assets	—	—%	—	61,000 (c)	—	—	—	61,000	1.1%
Restructuring and other	53,252	1.0%	—	—	—	—	—	53,252	1.0%
Western Digital acquisition-related expenses	—	—%	—	—	28,065 (d)	—	—	28,065	0.5%
Total operating expenses	1,344,940	24.2%	153,090	114,349	28,065	—	—	1,640,444	29.5%
Operating income	1,042,655	18.7%	(172,396)	(225,569)	(28,065)	—	—	616,625	11.1%
Other income (expense), net	6,567	0.1%	—	—	(920) (e)	(92,648) (f)	—	(87,001)	(1.6%)
Income before income taxes	1,049,222	18.9%	(172,396)	(225,569)	(28,985)	(92,648)	—	529,624	9.5%
Provision for income taxes (g)	299,100	5.4%	(45,648)	(65,023)	(10,521)	(33,627)	(3,135)	141,146	2.5%
Net income	**$ 750,122**	**13.5%**	**$ (126,748)**	**$ (160,546)**	**$ (18,464)**	**$ (59,021)**	**$ 3,135**	**$ 388,478**	**7.0%**
Net income per share, diluted	**$ 3.61**							**$ 1.82**	
Diluted shares used in computing net income per share	207,653		(53) (h)			5,300 (i)		212,900	
Effective tax rate (g)	28.5%		26.5%	28.8%	36.3%	36.3%		26.7%	

(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 FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012), SMART Storage Systems (August 2013) and Fusion-io, Inc. (July 2014).
(c) Impairment of acquisition-related in-process research and development intangible assets related to the acquisition of Fusion-io, Inc.
(d) Incremental expense related to the pending acquisition of SanDisk by Western Digital, primarily for transaction, legal, employee-related and other costs.
(e) Gains and losses related to the shortened duration and expected liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital.
(f) Incremental interest expense related to the non-cash economic interest expense associated with the convertible senior notes and the non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017.
(g) Income taxes associated with certain non-GAAP to GAAP adjustments.
(h) Adjustment for the impact of expensing share-based compensation.
(i) Adjustment for the impact of offsetting shares from the call options related to the convertible senior notes.

Reconciliation of Non-GAAP to GAAP Statements of Operations

Three months ended December 28, 2014

(in thousands, except percentages and per share amounts, unaudited)

	Q4'14 Non-GAAP	% of Rev	Share-based Compen-sation	Purchase Acctg Adj	Convertible Debt Adj	Other	Q4'14 GAAP	% of Rev
Revenue	**$ 1,735,254**	**100.0%**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,735,254**	**100.0%**
Cost of revenue	954,913	55.0%	4,601 (a)	2,931 (b)	—	—	962,445	55.5%
Amortization of acquisition-related intangible assets	—	—%	—	33,039 (c)	—	—	33,039	1.9%
Total cost of revenue	954,913	55.0%	4,601	35,970	—	—	995,484	57.4%
Gross profit	780,341	45.0%	(4,601)	(35,970)	—	—	739,770	42.6%
Research and development	205,944	11.9%	20,198 (a)	—	—	—	226,142	13.0%
Sales and marketing	102,573	5.9%	8,953 (a)	—	—	—	111,526	6.4%
General and administrative	45,217	2.6%	6,887 (a)	—	—	—	52,104	3.0%
Amortization of acquisition-related intangible assets	—	—%	—	13,681 (c)	—	—	13,681	0.8%
Restructuring and other	8,007	0.5%	—	—	—	—	8,007	0.5%
Total operating expenses	361,741	20.8%	36,038	13,681	—	—	411,460	23.7%
Operating income	418,600	24.1%	(40,639)	(49,651)	—	—	328,310	18.9%
Other income (expense), net	(2,663)	(0.2%)	—	—	(22,152) (d)	—	(24,815)	(1.4%)
Income before income taxes	415,937	24.0%	(40,639)	(49,651)	(22,152)	—	303,495	17.5%
Provision for income taxes	121,992	7.0%	(11,614)	(6,310)	(8,169)	5,705 (e)	101,604	5.9%
Net income	**$ 293,945**	**16.9%**	**$ (29,025)**	**$ (43,341)**	**$ (13,983)**	**$ (5,705)**	**$ 201,891**	**11.6%**
Net income per share, diluted	**$ 1.30**						**$ 0.86**	
Diluted shares used in computing net income per share	225,482		(260) (f)		9,572 (g)		234,794	
Effective tax rate	29.3%		28.6%	12.7%	36.9%		33.5%	

(a) Share-based compensation expense.
(b) Inventory step-up expense related to the acquisiton of Fusion-io, Inc. (July 2014).
(c) Amortization of acquisition-related intangible assets, primarily developed technology, customer relationships, and trademarks and trade names related to the acquisitions of Pliant Technology, Inc. (May 2011), FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012), SMART Storage Systems (August 2013) and Fusion-io, Inc. (July 2014).
(d) Incremental interest expense related to the non-cash economic interest expense associated with the 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.
(e) 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.
(f) Non-GAAP diluted shares include the impact of share-based compensation.
(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.

Reconciliation of Non-GAAP to GAAP Statements of Operations

Twelve months ended December 28, 2014

(in thousands, except percentages and per share amounts, unaudited)

	FY'14 Non-GAAP	% of Rev	Share-based Compen-sation	Purchase Acctg Adj	Convertible Debt Adj	Other	FY'14 GAAP	% of Rev
Revenue	**$ 6,627,701**	**100.0%**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 6,627,701**	**100.0%**
Cost of revenue	3,436,401	51.8%	14,719 (a)	7,834 (b)	—	—	3,458,954	52.2%
Amortization of acquisition-related intangible assets	—	—%	—	100,899 (c)	—	—	100,899	1.5%
Total cost of revenue	3,436,401	51.8%	14,719	108,733	—	—	3,559,853	53.7%
Gross profit	3,191,300	48.2%	(14,719)	(108,733)	—	—	3,067,848	46.3%
Research and development	777,468	11.7%	74,842 (a)	—	—	—	852,310	12.9%
Sales and marketing	347,074	5.2%	36,214 (a)	—	—	—	383,288	5.8%
General and administrative	185,364	2.8%	29,538 (a)	—	—	—	214,902	3.2%
Amortization of acquisition-related intangible assets	—	—%	—	26,423 (c)	—	—	26,423	0.4%
Restructuring and other	32,991	0.5%	—	—	—	—	32,991	0.5%
Total operating expenses	1,342,897	20.3%	140,594	26,423	—	—	1,509,914	22.8%
Operating income	1,848,403	27.9%	(155,313)	(135,156)	—	—	1,557,934	23.5%
Other income (expense), net	16,830	0.3%	—	—	(85,734) (d)	—	(68,904)	(1.0%)
Income before income taxes	1,865,233	28.1%	(155,313)	(135,156)	(85,734)	—	1,489,030	22.5%
Provision for income taxes	577,058	8.7%	(43,470)	(17,039)	(31,196)	(3,769) (e)	481,584	7.3%
Net income	**$ 1,288,175**	**19.4%**	**$ (111,843)**	**$ (118,117)**	**$ (54,538)**	**$ 3,769**	**$ 1,007,446**	**15.2%**
Net income per share, diluted	**$ 5.60**						**$ 4.23**	
Diluted shares used in computing net income per share	230,194		(246) (f)		8,261 (g)		238,209	
Effective tax rate	30.9%		28.0%	12.6%	36.4%		32.3%	

(a) Share-based compensation expense.
(b) Inventory step-up expense related to the acquisiton of Fusion-io, Inc. (July 2014).
(c) Amortization of acquisition-related intangible assets, primarily developed technology, customer relationships, and trademarks and trade names related to the acquisitions of Pliant Technology, Inc. (May 2011), FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012), SMART Storage Systems (August 2013) and Fusion-io, Inc. (July 2014).
(d) Incremental interest expense related to the non-cash economic interest expense associated with the 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.
(e) 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.
(f) Non-GAAP diluted shares include the impact of share-based compensation.
(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.

Reconciliation of Non-GAAP to GAAP Statements of Operations

Three months ended September 27, 2015

(in thousands, except percentages and per share amounts, unaudited)

	Q3'15 Non-GAAP	% of Rev	Share-based Compen-sation		Purchase Acctg Adj		Convertible Debt Adj		Other	Q3'15 GAAP	% of Rev
Revenue	**$ 1,452,285**	**100.0%**	**$ —**		**$ —**		**$ —**		**$ —**	**$ 1,452,285**	**100.0%**
Cost of revenue	815,154	56.1%	5,479	(a)	—		—		—	820,633	56.5%
Amortization of acquisition-related intangible assets	—	—%	—		28,822	(b)	—		—	28,822	2.0%
Total cost of revenue	815,154	56.1%	5,479		28,822		—		—	849,455	58.5%
Gross profit	637,131	43.9%	(5,479)		(28,822)		—		—	602,830	41.5%
Research and development	191,035	13.2%	20,600	(a)	—		—		—	211,635	14.6%
Sales and marketing	87,341	6.0%	8,701	(a)	—		—		—	96,042	6.6%
General and administrative	37,038	2.6%	6,576	(a)	—		—		—	43,614	3.0%
Amortization of acquisition-related intangible assets	—	—%	—		13,256	(b)	—		—	13,256	0.9%
Restructuring and other	875	0.1%	—		—		—		—	875	0.1%
Total operating expenses	316,289	21.8%	35,877		13,256		—		—	365,422	25.2%
Operating income	320,842	22.1%	(41,356)		(42,078)		—		—	237,408	16.3%
Other income (expense), net	(488)	(0.0%)	—		—		(22,704)	(c)	—	(23,192)	(1.6%)
Income before income taxes	320,354	22.1%	(41,356)		(42,078)		(22,704)		—	214,216	14.8%
Provision for income taxes (d)	97,294	6.7%	(10,688)		(10,244)		(8,261)		13,104	81,205	5.6%
Net income	**$ 223,060**	**15.4%**	**$ (30,668)**		**$ (31,834)**		**$ (14,443)**		**$ (13,104)**	**$ 133,011**	**9.2%**
Net income per share, diluted	**$ 1.09**									**$ 0.65**	
Diluted shares used in computing net income per share	204,103		(52)	(e)			1,736	(f)		205,787	
Effective tax rate	30.4%		25.8%		24.3%		36.4%			37.9%	

(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 FlashSoft Corporation (February 2012), Schooner Information Technology, Inc. (June 2012), SMART Storage Systems (August 2013) and Fusion-io, Inc. (July 2014).
(c) Incremental interest expense related to the non-cash economic interest expense associated with the convertible senior notes and the non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017.
(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 the non-GAAP tax rate but not in the forecasted GAAP tax rate.
(e) Non-GAAP diluted shares are adjusted for the impact of expensing share-based compensation.
(f) Non-GAAP diluted shares include the impact of offsetting shares from the call options related to the convertible senior notes.

Reconciliation of GAAP to Non-GAAP Cost of Revenue

(in thousands, unaudited)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	FY 2014
GAAP COST OF REVENUE	$809,213	$799,444	$823,160	$870,703	$760,655	$874,361	$929,353	$995,484	$787,239	$752,817	$849,455	$918,292	$3,307,803	$3,559,853
Share-based compensation (a)	(1,717)	(2,447)	(2,716)	(2,940)	(2,610)	(3,507)	(4,001)	(4,601)	(4,062)	(5,022)	(5,479)	(4,743)	(19,306)	(14,719)
Amortization of acquisition-related intangible assets (b)	(9,830)	(9,830)	(10,256)	(19,616)	(19,616)	(19,721)	(28,523)	(33,039)	(24,756)	(28,822)	(28,822)	(28,820)	(111,220)	(100,899)
Inventory step-up expense (c)	-	-	-	-	-	-	(4,903)	(2,931)	-	-	-	-	-	(7,834)
NON-GAAP COST OF REVENUE	$797,666	$787,167	$810,188	$848,147	$738,429	$851,133	$891,926	$954,913	$758,421	$718,973	$815,154	$884,729	$3,177,277	$3,436,401

(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 acquisition of Fusion-io, Inc.

Reconciliation of GAAP Cash Flows from Operations to Free Cash Flow

(in thousands, unaudited)

	Three months ended	
	December 28, 2014	January 3, 2016
Net cash provided by operating activities	$ 487,813	$ 433,979
Acquisition of property and equipment, net	(67,145)	(131,385)
Notes receivable issuances to Flash Ventures	(49,789)	(95,008)
Notes receivable proceeds from Flash Ventures	104,654	68,110
Free cash Flow	$ 475,533	$ 275,696

	Years ended	
	December 28, 2014	January 3, 2016
Net cash provided by operating activities	$ 1,698,448	$ 1,046,680
Acquisition of property and equipment, net	(232,786)	(413,828)
Investment in Flash Ventures	(24,296)	—
Notes receivable issuances to Flash Ventures	(181,481)	(323,382)
Notes receivable proceeds from Flash Ventures	231,409	285,070
Free cash Flow	$ 1,491,294	$ 594,540

Reconciliation of Q1 2016 Non-GAAP to GAAP Outlook[1]

(in millions, except for percentages)

	Non-GAAP	GAAP
Revenue	$1,175 - $1,250	$1,175 - $1,250
Gross Margin (2)	39% - 42%	36% - 39%
Operating Expenses (3)	$325 - $335	$400 - $410
Other Income (Expense) (4)	Similar to Q4 2015	N/A (6)
Tax Rate (5)	~ 31%	N/A (7)

(1) This guidance is exclusive of one-time transactions and does not reflect the effect of any acquisitions, divestitures or other transactions that may be announced after January 27, 2016.

Non-GAAP excludes the following items:

(2) Estimate of share-based compensation and amortization of acquisition-related intangible assets to be included in total cost of revenue.

(3) Estimate of share-based compensation, amortization of, and impairment for, acquisition-related intangible assets, and expense related to the pending acquisition of SanDisk by Western Digital, primarily for transaction, legal, employee-related and other costs, to be included in operating expenses.

(4) Incremental interest expense related to the non-cash economic interest expense associated with the convertible senior notes; gains or losses related to the shortened duration and expected liquidation prior to their effective maturity of marketable securities due to the pending acquisition of SanDisk by Western Digital Corporation; charges related to the modification and termination of warrants.

(5) 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.

Comments related to GAAP estimates:

(6) Cannot estimate GAAP Other Income (Expense) as it is expected to include charges related to the modification and termination of warrants which are in progress.

(7) Cannot estimate GAAP Tax Rate as it is expected to be impacted by charges related to the modification and termination of warrants which are in progress.