

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)

ASSETS:

	March 26, <u>2005</u>	September 25, <u>2004</u>
Current assets:		
Cash and cash equivalents	\$2,254	\$2,969
Short-term investments	4,803	2,495
Accounts receivable, less allowances of \$51 and \$47, respectively ..	888	774
Inventories	164	101
Deferred tax assets	297	231
Other current assets	<u>601</u>	<u>485</u>
Total current assets	9,007	7,055
Property, plant, and equipment, net	742	707
Goodwill	80	80
Acquired intangible assets	33	17
Other assets	<u>249</u>	<u>191</u>
Total assets	<u>\$10,111</u>	<u>\$8,050</u>

LIABILITIES AND SHAREHOLDERS' EQUITY:

Current liabilities:		
Accounts payable	\$1,773	\$1,451
Accrued expenses	<u>1,579</u>	<u>1,200</u>
Total current liabilities	3,352	2,651
Non-current liabilities	<u>373</u>	<u>323</u>
Total liabilities	<u>3,725</u>	<u>2,974</u>

Commitments and contingencies

Shareholders' equity:

Common stock, no par value; 1,800,000,000 shares authorized; 823,136,748 and 782,887,234 shares issued and outstanding, respectively	3,195	2,514
Deferred stock compensation	(70)	(93)
Retained earnings	3,255	2,670
Accumulated other comprehensive income (loss)	<u>6</u>	<u>(15)</u>
Total shareholders' equity	<u>6,386</u>	<u>5,076</u>
Total liabilities and shareholders' equity	<u>\$10,111</u>	<u>\$8,050</u>

4/13/05 11:45 AM

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except share and per share amounts)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 26, <u>2005</u>	March 27, <u>2004</u>	March 26, <u>2005</u>	March 27, <u>2004</u>
Net sales.....	\$3,243	\$1,909	\$6,733	\$3,915
Cost of sales.....	<u>2,275</u>	<u>1,379</u>	<u>4,769</u>	<u>2,849</u>
Gross margin.....	<u>968</u>	<u>530</u>	<u>1,964</u>	<u>1,066</u>
Operating expenses:				
Research and development.....	119	123	242	242
Selling, general, and administrative.....	447	345	917	688
Restructuring costs.....	<u>--</u>	<u>10</u>	<u>--</u>	<u>10</u>
Total operating expenses.....	<u>566</u>	<u>478</u>	<u>1,159</u>	<u>940</u>
Operating income.....	402	52	805	126
Other income and expense:				
Gains on non-current investments.....	--	--	--	4
Interest and other income, net.....	<u>33</u>	<u>12</u>	<u>59</u>	<u>21</u>
Total other income and expense.....	<u>33</u>	<u>12</u>	<u>59</u>	<u>25</u>
Income before provision for income taxes.....	435	64	864	151
Provision for income taxes.....	<u>145</u>	<u>18</u>	<u>279</u>	<u>42</u>
Net income.....	<u>\$ 290</u>	<u>\$ 46</u>	<u>\$ 585</u>	<u>\$ 109</u>
Earnings per common share:				
Basic.....	\$ 0.36	\$ 0.06	\$ 0.73	\$ 0.15
Diluted.....	\$ 0.34	\$ 0.06	\$ 0.69	\$ 0.15
Shares used in computing earnings per share (in thousands):				
Basic.....	808,172	730,694	798,602	727,796
Diluted.....	857,011	756,460	848,553	750,336

4/13/05 11:45 AM

RECONCILIATION OF NON-GAAP TO GAAP RESULTS OF OPERATIONS

(In millions, except share and per share amounts)

	<u>Three Months Ended March 26, 2005</u>			<u>Three Months Ended March 27, 2004</u>				
	<u>As Reported</u>	<u>Non-GAAP Adjustments</u>	<u>(a)</u>	<u>Non- GAAP</u>	<u>As Reported</u>	<u>Non-GAAP Adjustments</u>	<u>(a)</u>	<u>Non- GAAP</u>
Operating income	<u>402</u>	<u>10</u>	(b)	<u>412</u>	<u>52</u>	<u>16</u>	(c)	<u>68</u>
Total other income and expense	<u>33</u>	<u>-</u>		<u>33</u>	<u>12</u>	<u>-</u>		<u>12</u>
Provision for income taxes	<u>145</u>	<u>1</u>	(d)	<u>146</u>	<u>18</u>	<u>4</u>	(d)	<u>22</u>
Net income	<u>\$290</u>	<u>\$9</u>		<u>\$299</u>	<u>\$46</u>	<u>\$12</u>		<u>\$58</u>
Earnings per common share:								
Basic	\$0.36			\$0.37	\$0.06			\$0.08
Diluted	\$0.34			\$0.35	\$0.06			\$0.08
Shares used in computing earnings per share (in thousands):								
Basic	808,172			808,172	730,694			730,694
Diluted	857,011			857,011	756,460			756,460

- (a) These adjustments reconcile the Company's GAAP results of operations to its pro forma or non-GAAP results of operations. The Company believes that presentation of results excluding items such as non-cash share-based compensation, restructuring costs, and investment gains provides meaningful supplemental information to both management and investors that is indicative of the Company's core operating results and facilitates comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These non-GAAP measures should not be viewed as a substitute for the Company's GAAP results. Neither the Company's GAAP nor non-GAAP results of operations include the accounting impact had the Company chosen to apply the fair-value recognition provisions of SFAS No. 123 or SFAS No. 123 revised (123R) to expense share-based compensation, the impact of which is disclosed in the Company's Forms 10-Q and 10-K as filed with the SEC. The Company expects to adopt SFAS No. 123R in its fourth fiscal quarter ending September 24, 2005.
- (b) This adjustment reflects the non-cash compensation expense related primarily to restricted stock awarded to the Company's CEO in fiscal 2003 and restricted stock units awarded to selected members of the Company's senior management team in fiscal 2004. Of the total non-cash compensation expense of \$10 million, \$1 million is included in cost of sales; \$1 million is included in research and development expense; and \$8 million is included in selling, general and administrative expense. Note that neither the Company's GAAP nor non-GAAP results of operations includes the accounting impact had the Company chosen to apply the fair-value recognition provisions of SFAS No. 123R.
- (c) This adjustment includes \$6 million related to the non-cash compensation expense primarily attributable to restricted stock awarded to the Company's CEO in fiscal 2003, which is included in selling, general and administrative expense, as well as \$10 million related to restructuring actions initiated during the second quarter of fiscal 2004.
- (d) Amount reflects the expected tax impact on the above noted non-GAAP adjustments.

4/13/05 11:45 AM

RECONCILIATION OF NON-GAAP TO GAAP RESULTS OF OPERATIONS

(In millions, except share and per share amounts)

	<u>Six Months Ended March 26, 2005</u>			<u>Six Months Ended March 27, 2004</u>				
	<u>As Reported</u>	<u>Non-GAAP Adjustments</u>	<u>(a)</u>	<u>Non- GAAP</u>	<u>As Reported</u>	<u>Non-GAAP Adjustments</u>	<u>(a)</u>	<u>Non- GAAP</u>
Operating income	<u>805</u>	<u>20</u>	(b)	<u>825</u>	<u>126</u>	<u>22</u>	(c)	<u>148</u>
Total other income and expense	<u>59</u>	<u>-</u>		<u>59</u>	<u>25</u>	<u>(4)</u>	(d)	<u>21</u>
Provision for income taxes	<u>279</u>	<u>2</u>	(e)	<u>281</u>	<u>42</u>	<u>2</u>	(e)	<u>44</u>
Net income	<u>\$585</u>	<u>\$18</u>		<u>\$603</u>	<u>\$109</u>	<u>\$16</u>		<u>\$125</u>
Earnings per common share:								
Basic	\$0.73			\$0.76	\$0.15			\$0.17
Diluted	\$0.69			\$0.71	\$0.15			\$0.17
Shares used in computing earnings per share (in thousands):								
Basic	798,602			798,602	727,796			727,796
Diluted	848,553			848,553	750,336			750,336

- (a) These adjustments reconcile the Company's GAAP results of operations to its pro forma or non-GAAP results of operations. The Company believes that presentation of results excluding items such as non-cash share-based compensation, restructuring costs, and investment gains provides meaningful supplemental information to both management and investors that is indicative of the Company's core operating results and facilitates comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes. These non-GAAP measures should not be viewed as a substitute for the Company's GAAP results. Neither the Company's GAAP nor non-GAAP results of operations include the accounting impact had the Company chosen to apply the fair-value recognition provisions of SFAS No. 123 or SFAS No. 123 revised (123R) to expense share-based compensation, the impact of which is disclosed in the Company's Forms 10-Q and 10-K as filed with the SEC. The Company expects to adopt SFAS No. 123R in its fourth fiscal quarter ending September 24, 2005.
- (b) This adjustment reflects the non-cash compensation expense related primarily to restricted stock awarded to the Company's CEO in fiscal 2003 and restricted stock units awarded to selected members of the Company's senior management team in fiscal 2004. Of the total non-cash compensation expense of \$20 million, \$1 million is included in cost of sales; \$2 million is included in research and development expense; and \$17 million is included in selling, general and administrative expense. Note that neither the Company's GAAP nor non-GAAP results of operations includes the accounting impact had the Company chosen to apply the fair-value recognition provisions of SFAS No. 123R.
- (c) This adjustment includes \$12 million related to the non-cash compensation expense primarily attributable to restricted stock awarded to the Company's CEO in fiscal 2003, which is included in selling, general and administrative expense, as well as \$10 million related to restructuring actions initiated during the second quarter of fiscal 2004.
- (d) This adjustment represents gain on sales of non-current investments.
- (e) Amount reflects the expected tax impact on the above noted non-GAAP adjustments.

4/13/05 11:45 AM