

QLogic Corporation
Condensed Consolidated Statements of Income and Non-GAAP Financial Measures
Fiscal Year 2007
(unaudited -- in thousands, except per share amounts)

Condensed Consolidated Statements of Income - GAAP

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
Net revenues	\$ 136,692	\$ 145,298	\$ 157,611	\$ 147,096	\$ 586,697
Cost of revenues	43,320	45,756	50,698	52,208	191,982
Gross profit	<u>93,372</u>	<u>99,542</u>	<u>106,913</u>	<u>94,888</u>	<u>394,715</u>
Operating expenses:					
Engineering and development	32,920	32,619	34,003	35,773	135,315
Sales and marketing	22,401	20,108	21,586	22,636	86,731
General and administrative	8,442	7,594	7,238	7,770	31,044
Purchased in-process research and development	1,910	-	-	1,800	3,710
Total operating expenses	<u>65,673</u>	<u>60,321</u>	<u>62,827</u>	<u>67,979</u>	<u>256,800</u>
Operating income	27,699	39,221	44,086	26,909	137,915
Interest and other income (expense), net	6,842	5,844	5,646	(1,460)	16,872
Income before income taxes	34,541	45,065	49,732	25,449	154,787
Income taxes	13,465	14,618	14,278	7,008	49,369
Net income	<u>\$ 21,076</u>	<u>\$ 30,447</u>	<u>\$ 35,454</u>	<u>\$ 18,441</u>	<u>\$ 105,418</u>
Net income per share:					
Basic	<u>\$ 0.13</u>	<u>\$ 0.19</u>	<u>\$ 0.22</u>	<u>\$ 0.12</u>	<u>\$ 0.66</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.19</u>	<u>\$ 0.22</u>	<u>\$ 0.12</u>	<u>\$ 0.66</u>
Number of shares used in per share calculations:					
Basic	<u>161,548</u>	<u>158,468</u>	<u>158,532</u>	<u>157,775</u>	<u>159,081</u>
Diluted	<u>162,897</u>	<u>159,827</u>	<u>160,760</u>	<u>159,235</u>	<u>160,680</u>
Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share					
Non-GAAP net income	<u>\$ 33,653</u>	<u>\$ 38,340</u>	<u>\$ 44,895</u>	<u>\$ 35,232</u>	<u>\$ 152,120</u>
Non-GAAP net income per diluted share	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ 0.28</u>	<u>\$ 0.22</u>	<u>\$ 0.95</u>

A reconciliation of the non-GAAP net income and non-GAAP net income per diluted share amounts to the most directly comparable GAAP financial measure, as well as a description of the reasons that management believes that these non-GAAP financial measures provide useful information to investors and the additional purposes for which management uses these non-GAAP financial measures, is presented below.

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Discussion of Non-GAAP Financial Measures

In addition to the results presented on a generally accepted accounting principles (GAAP) basis, the Company has included certain non-GAAP financial measures. These non-GAAP financial measures include non-GAAP net income and non-GAAP net income per diluted share.

The Company believes that these supplemental non-GAAP financial measures, when presented in conjunction with the corresponding GAAP financial measures, provide useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. However, non-GAAP financial measures have certain limitations in that they do not reflect all of the costs associated with the operations of the Company's business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP.

The Company has presented non-GAAP net income and non-GAAP net income per diluted share, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core net income and net income per diluted share on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core net profitability with historical periods. Although the non-GAAP financial measures presented by the Company may be different from the non-GAAP financial measures used by other companies, the Company believes that the non-GAAP presentation may also enhance comparisons of the Company's core net profitability with the corresponding results for competitors. Management believes that non-GAAP net income and non-GAAP net income per diluted share are important measures in the evaluation of the Company's profitability.

Management uses non-GAAP net income in its evaluation of the Company's core after-tax results of operations and trends between fiscal periods and believes that this measure is an important component of its internal performance measurement process. In addition, the Company prepares and maintains its budgets and forecasts for future periods on a basis consistent with this non-GAAP financial measure. Management believes that providing these non-GAAP financial measures allows investors to view the Company's financial results in the way that management views the financial results.

The Company excludes the following items from its non-GAAP financial measures:

Stock-based compensation. Stock-based compensation consists of expenses associated with stock options and restricted stock units granted by the Company and purchases of common stock under the Company's Employee Stock Purchase Plan. Stock-based compensation is a non-cash expense that varies in amount from period to period as a result of factors that are difficult to predict and are generally outside the control of the Company, such as the market price and associated volatility of the Company's common stock. Accordingly, management believes these expenses are not reflective of the Company's core operating expenses and excludes them when assessing its core operating results and from its internal budgets and forecasts.

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Amortization of purchased intangible assets. In connection with acquisitions, the Company records purchased intangible assets (consisting primarily of purchased technology and customer relationships) which are amortized over their estimated useful lives. The amortization is a non-cash expense which is not considered by management when assessing the core operating results of the Company. The purchased intangible assets and the related amortization can vary significantly based on the size and frequency of acquisitions.

Acquisition-related stock-based compensation. Acquisition-related stock-based compensation is a non-cash expense related to stock-based performance plans entered into by the Company in connection with certain acquisitions. These expenses can vary based on the nature of the related plan associated with an acquisition, as well as the timing of achievement of the underlying performance milestones. Management does not consider acquisition-related stock-based compensation when assessing the core operating results of the Company. In addition, acquisition-related stock-based compensation can vary significantly based on the size and frequency of acquisitions, as well as the extent that such performance plans are used.

Purchased in-process research and development. In connection with acquisitions, the Company records in-process research and development expenses when technological feasibility for acquired technology has not been established and no future alternative use for such technology exists. Management believes that in-process research and development expenses relate to the value created by the acquired company prior to the acquisition and thus are transaction costs rather than ongoing costs of operating the Company's core business. These costs are not considered by management when assessing the core operating results of the Company. In addition, purchased in-process research and development can vary significantly based on the nature, size and frequency of acquisitions.

Insurance recovery. The insurance recovery is a reimbursement received from an insurance carrier associated with the settlement of a prior legal matter. The insurance recovery is a non-recurring item. Management excludes this item when evaluating the Company's operating performance because this item does not affect its on-going core operating results.

Impairment of marketable securities. The impairment of marketable securities results from a decline in the fair value of an investment below its cost that is judged to be other-than-temporary. Management believes these charges are infrequent in nature and are unrelated to the Company's core business. Accordingly, management does not consider the impairment of marketable securities when assessing the core operating results of the Company.

Gains on sale of shares acquired in the sale of discontinued operations. In connection with the sale of discontinued operations, the Company received shares of common stock in the acquirer. The gain on sale of these shares is unrelated to the Company's on-going business and operating results. Accordingly, management does not consider the gains on the sales of these shares when assessing the core operating results of the Company.

Income tax effects of excluded items. Income tax expense is adjusted by the amount of the tax expense or benefit that would result from use of the non-GAAP results instead of the GAAP results when calculating the Company's tax expense.

Each of the foregoing items has been excluded from the non-GAAP financial measures presented by the Company. Management believes that such exclusion is appropriate since these items are not reflective of the Company's core operating activities and thus excludes them from their internal budgets and forecasts, as well as their assessment of core operating performance.

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Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP net income	\$ 21,076	\$ 30,447	\$ 35,454	\$ 18,441	\$ 105,418
Items excluded from GAAP net income:					
Stock-based compensation	8,664	6,371	7,511	7,733	30,279
Amortization of purchased intangible assets	3,111	2,370	2,370	5,089	12,940
Acquisition-related stock-based compensation	2,879	2,593	2,337	1,283	9,092
Purchased in-process research and development	1,910	-	-	1,800	3,710
Impairment of marketable securities	-	-	-	8,094	8,094
Income tax effect	(3,987)	(3,441)	(2,777)	(7,208)	(17,413)
	<u>12,577</u>	<u>7,893</u>	<u>9,441</u>	<u>16,791</u>	<u>46,702</u>
Non-GAAP net income	<u>\$ 33,653</u>	<u>\$ 38,340</u>	<u>\$ 44,895</u>	<u>\$ 35,232</u>	<u>\$ 152,120</u>
Net income per diluted share:					
GAAP net income	\$ 0.13	\$ 0.19	\$ 0.22	\$ 0.12	\$ 0.66
Adjustments	0.08	0.05	0.06	0.10	0.29
Non-GAAP net income	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ 0.28</u>	<u>\$ 0.22</u>	<u>\$ 0.95</u>

The Company has presented non-GAAP net income and non-GAAP net income per diluted share, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core net income and core net income per diluted share on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core net profitability with historical periods and comparisons of the Company's core net profitability with the corresponding results from competitors. These non-GAAP measures exclude the adjustments described above, and thus provide an overall measure of the Company's on-going net profitability and related profitability on a per diluted share basis.

Non-GAAP Cost of Revenues

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP Cost of Revenues	\$ 43,320	\$ 45,756	\$ 50,698	\$ 52,208	\$ 191,982
Stock-based compensation	(512)	(424)	(495)	(466)	(1,897)
Amortization of purchased intangible assets	(2,986)	(2,245)	(2,245)	(3,617)	(11,093)
Acquisition-related stock-based compensation	(13)	(13)	(13)	(13)	(52)
Non-GAAP Cost of Revenues	<u>\$ 39,809</u>	<u>\$ 43,074</u>	<u>\$ 47,945</u>	<u>\$ 48,112</u>	<u>\$ 178,940</u>

The Company has presented non-GAAP cost of revenues, on a basis consistent with its historical presentation, to assist investors in understanding the Company's cost of revenues on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's cost of revenues with historical periods and comparisons of the Company's cost of revenues with the corresponding results from competitors. To the extent that share based compensation and costs associated with business combinations are included in cost of revenues in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of cost of revenues for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating cost of revenues.

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Non-GAAP Gross Profit

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP Gross Profit	\$ 93,372	\$ 99,542	\$ 106,913	\$ 94,888	\$ 394,715
Stock-based compensation	512	424	495	466	1,897
Amortization of purchased intangible assets	2,986	2,245	2,245	3,617	11,093
Acquisition-related stock-based compensation	13	13	13	13	52
Non-GAAP Gross Profit	<u>\$ 96,883</u>	<u>\$ 102,224</u>	<u>\$ 109,666</u>	<u>\$ 98,984</u>	<u>\$ 407,757</u>

The Company has presented non-GAAP gross profit, on a basis consistent with its historical presentation, to assist investors in understanding the Company's gross profit on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's gross profit with historical periods and comparisons of the Company's gross profit with the corresponding results from competitors. To the extent that share based compensation and costs associated with business combinations are included in the gross profit in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of gross profit for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating gross profit.

Non-GAAP Engineering and Development Expenses

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP engineering and development expenses	\$ 32,920	\$ 32,619	\$ 34,003	\$ 35,773	\$ 135,315
Stock-based compensation	(2,824)	(2,419)	(3,023)	(2,924)	(11,190)
Amortization of purchased intangible assets	(67)	(66)	(67)	(67)	(267)
Acquisition-related stock-based compensation	(2,209)	(1,965)	(1,811)	(1,616)	(7,601)
Non-GAAP engineering and development expenses	<u>\$ 27,820</u>	<u>\$ 28,169</u>	<u>\$ 29,102</u>	<u>\$ 31,166</u>	<u>\$ 116,257</u>

The Company has presented non-GAAP engineering and development expenses, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core engineering and development expenses on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core engineering and development expenses with historical periods and comparisons of the Company's core engineering and development expenses with the corresponding expenses for competitors. Management believes that on-going engineering and development expenses are an important measure in the evaluation of the investments that are made by technology companies. In addition, management believes that the level of investment in engineering and development expenses is one of the important factors used to evaluate technology companies in an environment where there are rapid technological changes, evolving industry standards and continuing improvements in product features and performance. To the extent that share based compensation and costs associated with business combinations are included in engineering and development expenses in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of engineering and development investment for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating its commitment to core engineering and development investments.

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Non-GAAP Sales and Marketing Expenses

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP sales and marketing expenses	\$ 22,401	\$ 20,108	\$ 21,586	\$ 22,636	\$ 86,731
Stock-based compensation	(2,691)	(1,425)	(1,767)	(2,272)	(8,155)
Amortization of purchased intangible assets	(58)	(59)	(58)	(1,405)	(1,580)
Acquisition-related stock-based compensation	(632)	(591)	(491)	327	(1,387)
Non-GAAP sales and marketing expenses	<u>\$ 19,020</u>	<u>\$ 18,033</u>	<u>\$ 19,270</u>	<u>\$ 19,286</u>	<u>\$ 75,609</u>

The Company has presented non-GAAP sales and marketing expenses, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core sales and marketing expenses on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core sales and marketing expenses with historical periods and comparisons of the Company's core sales and marketing expenses with the corresponding expenses for competitors. Management believes that on-going sales and marketing expenses are an important measure in the evaluation of the sales and marketing efforts of technology companies. In addition, management believes that investments in the sales and marketing organizational infrastructure and related marketing programs are critical to expanding a company's customer base and enhancing relationships with existing customers. To the extent that share based compensation and costs associated with business combinations are included in sales and marketing expenses in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of sales and marketing investment for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating its commitment to core sales and marketing efforts.

Non-GAAP General and Administrative Expenses

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP general and administrative expenses	\$ 8,442	\$ 7,594	\$ 7,238	\$ 7,770	\$ 31,044
Stock-based compensation	(2,637)	(2,103)	(2,226)	(2,071)	(9,037)
Acquisition-related stock-based compensation	(25)	(24)	(22)	19	(52)
Non-GAAP general and administrative expenses	<u>\$ 5,780</u>	<u>\$ 5,467</u>	<u>\$ 4,990</u>	<u>\$ 5,718</u>	<u>\$ 21,955</u>

The Company has presented non-GAAP general and administrative expenses, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core general and administrative expenses on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core general and administrative expenses with historical periods and comparisons of the Company's core general and administrative expenses with the corresponding expenses for competitors. To the extent that share based compensation and costs associated with business combinations are included in general and administrative expenses in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of general and administrative expenses for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating its core general and administrative costs.

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Non-GAAP Operating Expenses

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP operating expenses	\$ 65,673	\$ 60,321	\$ 62,827	\$ 67,979	\$ 256,800
Stock-based compensation	(8,152)	(5,947)	(7,016)	(7,267)	(28,382)
Amortization of purchased intangible assets	(125)	(125)	(125)	(1,472)	(1,847)
Acquisition-related stock-based compensation	(2,866)	(2,580)	(2,324)	(1,270)	(9,040)
Purchased in-process research and development	(1,910)	-	-	(1,800)	(3,710)
Non-GAAP operating expenses	<u>\$ 52,620</u>	<u>\$ 51,669</u>	<u>\$ 53,362</u>	<u>\$ 56,170</u>	<u>\$ 213,821</u>

The Company has presented non-GAAP operating expenses, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core operating expenses on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core operating expenses with historical periods and comparisons of the Company's core operating expenses with the corresponding expenses for competitors. Management believes that on-going operating expenses are an important measure in the evaluation of the Company's overall resource utilization and operating performance, due to the direct impact that core operating expenses have on overall profitability. To the extent that share based compensation and costs associated with business combinations are included in operating expenses in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of operating expenses for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating operating expenses.

Non-GAAP Operating Income

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP operating income	\$ 27,699	\$ 39,221	\$ 44,086	\$ 26,909	\$ 137,915
Stock-based compensation	8,664	6,371	7,511	7,733	30,279
Amortization of purchased intangible assets	3,111	2,370	2,370	5,089	12,940
Acquisition-related stock-based compensation	2,879	2,593	2,337	1,283	9,092
Purchased in-process research and development	1,910	-	-	1,800	3,710
Non-GAAP operating income	<u>\$ 44,263</u>	<u>\$ 50,555</u>	<u>\$ 56,304</u>	<u>\$ 42,814</u>	<u>\$ 193,936</u>

The Company has presented non-GAAP operating income, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core operating income on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core operating income with historical periods and comparisons of the Company's core operating income with the corresponding performance for competitors. Management believes that on-going operating income is an important measure in the evaluation of the Company's profitability associated with normal operations. To the extent that share based compensation and costs associated with business combinations are included in operating income in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of operating income for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating operating income.

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Non-GAAP Income before Income Taxes

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP income before income taxes	\$ 34,541	\$ 45,065	\$ 49,732	\$ 25,449	\$ 154,787
Stock-based compensation	8,664	6,371	7,511	7,733	30,279
Amortization of purchased intangible assets	3,111	2,370	2,370	5,089	12,940
Acquisition-related stock-based compensation	2,879	2,593	2,337	1,283	9,092
Purchased in-process research and development	1,910	-	-	1,800	3,710
Impairment of marketable securities	-	-	-	8,094	8,094
Non-GAAP income before income taxes	<u>\$ 51,105</u>	<u>\$ 56,399</u>	<u>\$ 61,950</u>	<u>\$ 49,448</u>	<u>\$ 218,902</u>

The Company has presented non-GAAP income before income taxes, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core income before income taxes on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core income before income taxes with historical periods and comparisons of the Company's core income before income taxes with the corresponding performance for competitors. Management believes that on-going income before income taxes is an important measure in the evaluation of the Company's profitability associated with normal operations. To the extent that share based compensation, costs associated with business combinations, and impairment charges related to marketable securities are included in income before income taxes in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of income before income taxes for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating income before income taxes.

Non-GAAP Income Taxes

	<u>Q1-FY07</u>	<u>Q2-FY07</u>	<u>Q3-FY07</u>	<u>Q4-FY07</u>	<u>Total YTD</u>
GAAP income taxes	\$ 13,465	\$ 14,618	\$ 14,278	\$ 7,008	\$ 49,369
Tax effect of adjustments to GAAP operating expenses	3,987	3,441	2,777	7,208	17,413
Non-GAAP income taxes	<u>\$ 17,452</u>	<u>\$ 18,059</u>	<u>\$ 17,055</u>	<u>\$ 14,216</u>	<u>\$ 66,782</u>

The Company has presented non-GAAP income taxes, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core income tax expense on an on-going basis. The non-GAAP presentation also enhances comparisons of the Company's core income tax expense with historical periods and comparisons of the Company's core income tax expense with the corresponding tax expense for competitors. Management believes that on-going income tax expense is an important measure in the evaluation of the Company's profitability associated with normal operations. To the extent that share based compensation and costs associated with business combinations are included in income taxes in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of income taxes for the reasons discussed above. This non-GAAP measure is useful to investors, and is also useful to management in evaluating income taxes.