

**QLogic Corporation**  
**Condensed Consolidated Statements of Income and Non-GAAP Financial Measures**  
**Fiscal Year 2010**  
**(unaudited -- in thousands, except per share amounts)**

**Condensed Consolidated Statements of Income – GAAP**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
Net revenues	\$ 122,775	\$ 131,457	\$ 149,122	\$ 403,354
Cost of revenues	<u>44,469</u>	<u>47,769</u>	<u>53,020</u>	<u>145,258</u>
Gross profit	<u>78,306</u>	<u>83,688</u>	<u>96,102</u>	<u>258,096</u>
Operating expenses:				
Engineering and development	34,078	34,238	33,978	102,294
Sales and marketing	19,465	19,991	18,812	58,268
General and administrative	8,314	7,829	8,780	24,923
Special charges	<u>—</u>	<u>848</u>	<u>—</u>	<u>848</u>
Total operating expenses	<u>61,857</u>	<u>62,906</u>	<u>61,570</u>	<u>186,333</u>
Operating income	16,449	20,782	34,532	71,763
Interest and other income, net	<u>2,924</u>	<u>2,336</u>	<u>1,736</u>	<u>6,996</u>
Income before income taxes	19,373	23,118	36,268	78,759
Income taxes	<u>4,410</u>	<u>6,955</u>	<u>7,620</u>	<u>18,985</u>
Net income	<u>\$ 14,963</u>	<u>\$ 16,163</u>	<u>\$ 28,648</u>	<u>\$ 59,774</u>
Net income per share:				
Basic	<u>\$ 0.13</u>	<u>\$ 0.14</u>	<u>\$ 0.25</u>	<u>\$ 0.51</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.14</u>	<u>\$ 0.25</u>	<u>\$ 0.51</u>
Number of shares used in per share calculations:				
Basic	<u>118,860</u>	<u>117,248</u>	<u>114,695</u>	<u>116,935</u>
Diluted	<u>119,474</u>	<u>117,941</u>	<u>116,479</u>	<u>117,965</u>

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

Non-GAAP net income	<u>\$ 23,895</u>	<u>\$ 25,120</u>	<u>\$ 36,199</u>	<u>\$ 85,214</u>
Non-GAAP net income per diluted share	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.31</u>	<u>\$ 0.72</u>

A reconciliation of non-GAAP net income and non-GAAP net income per diluted share to the most directly comparable GAAP financial measures, 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 also 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 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 core net income per diluted share on an on-going basis. These non-GAAP financial measures may also assist investors in making 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 these non-GAAP financial measures may also assist investors in making comparisons of the Company's core net profitability with the corresponding results for its competitors. Management also 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 and non-GAAP net income per diluted share in its evaluation of the Company's core after-tax results of operations and trends between fiscal periods and believes that these measures are important components 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 these non-GAAP financial measures. 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.

*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.

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*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.

*Special charges.* Special charges include the costs associated with exit or disposal activities, including costs related to a facility under a non-cancelable lease that was vacated and severance benefits for involuntarily terminated employees. Management believes these charges are unrelated to the Company's core business and does not consider these special charges when assessing the core operating results of the Company.

*Gain on sales of previously impaired investment securities.* The Company sold investment securities that were previously impaired and recorded a gain which is included in the Company's results of operations. The Company had previously recognized impairment charges on its investment securities due to declines in the fair value of certain of its investments below their cost basis that management had deemed to be other-than-temporary. Management believes that these gains are unrelated to its core business and does not consider the gain on sales of previously impaired investment securities when assessing the core operating results of the Company.

*Income taxes.* Income tax expense is adjusted by the amount of tax benefit or expense (including any valuation allowance related to deferred tax assets) that would result from the use of the non-GAAP results instead of the GAAP results when calculating the Company's tax expense. Management believes changes in valuation allowances related to the Company's deferred tax assets associated with non-core assets (i.e., investment securities) are unrelated to the Company's core business. Accordingly, management does not consider valuation allowances related to such deferred tax assets when assessing the core operating results of the Company.

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-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP net income	\$ 14,963	\$ 16,163	\$ 28,648	\$ 59,774
Items excluded from GAAP net income:				
Stock-based compensation	9,560	9,006	8,456	27,022
Amortization of purchased intangible assets	2,210	2,616	1,893	6,719
Acquisition-related stock-based compensation	59	58	286	403
Special charges	—	848	—	848
Gain on sales of previously impaired investment securities	(605)	—	—	(605)
Income taxes	(2,292)	(3,571)	(3,084)	(8,947)
Total non-GAAP adjustments	<u>8,932</u>	<u>8,957</u>	<u>7,551</u>	<u>25,440</u>
Non-GAAP net income	<u>\$ 23,895</u>	<u>\$ 25,120</u>	<u>\$ 36,199</u>	<u>\$ 85,214</u>
Net income per diluted share:				
GAAP net income	\$ 0.13	\$ 0.14	\$ 0.25	\$ 0.51
Adjustments	<u>0.07</u>	<u>0.07</u>	<u>0.06</u>	<u>0.21</u>
Non-GAAP net income	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.31</u>	<u>\$ 0.72</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. These non-GAAP financial measures may also assist investors in making 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 financial 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-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP cost of revenues	\$ 44,469	\$ 47,769	\$ 53,020	\$ 145,258
Stock-based compensation	(734)	(655)	(650)	(2,039)
Amortization of purchased intangible assets	(1,402)	(1,807)	(1,624)	(4,833)
Non-GAAP cost of revenues	<u>\$ 42,333</u>	<u>\$ 45,307</u>	<u>\$ 50,746</u>	<u>\$ 138,386</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 core cost of revenues on an on-going basis. This non-GAAP financial measure may also assist investors in making comparisons of the Company's core cost of revenues with historical periods and comparisons of the Company's core cost of revenues with the corresponding results from competitors. To the extent that stock-based compensation and amortization of purchased intangible assets are included in cost of revenues in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of cost of revenues for the reasons discussed above. This non-GAAP financial measure is useful to investors and is also useful to management in evaluating core cost of revenues.

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**Non-GAAP Gross Profit**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP gross profit	\$ 78,306	\$ 83,688	\$ 96,102	\$ 258,096
Stock-based compensation	734	655	650	2,039
Amortization of purchased intangible assets	<u>1,402</u>	<u>1,807</u>	<u>1,624</u>	<u>4,833</u>
Non-GAAP gross profit	<u>\$ 80,442</u>	<u>\$ 86,150</u>	<u>\$ 98,376</u>	<u>\$ 264,968</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 core gross profit on an on-going basis. This non-GAAP financial measure may also assist investors in making comparisons of the Company's core gross profit with historical periods and comparisons of the Company's core gross profit with the corresponding results from competitors. To the extent that stock-based compensation and amortization of purchased intangible assets are included in gross profit in accordance with GAAP, management believes that it is useful to exclude these amounts in the calculation of the core level of gross profit for the reasons discussed above. This non-GAAP financial measure is useful to investors and is also useful to management in evaluating core gross profit.

**Non-GAAP Engineering and Development Expenses**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP engineering and development expenses	\$ 34,078	\$ 34,238	\$ 33,978	\$ 102,294
Stock-based compensation	(4,967)	(4,530)	(4,222)	(13,719)
Acquisition-related stock-based compensation	<u>(59)</u>	<u>(58)</u>	<u>(286)</u>	<u>(403)</u>
Non-GAAP engineering and development expenses	<u>\$ 29,052</u>	<u>\$ 29,650</u>	<u>\$ 29,470</u>	<u>\$ 88,172</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation and acquisition-related stock-based compensation 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 financial 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-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP sales and marketing expenses	\$ 19,465	\$ 19,991	\$ 18,812	\$ 58,268
Stock-based compensation	(1,644)	(1,957)	(1,629)	(5,230)
Amortization of purchased intangible assets	(808)	(809)	(269)	(1,886)
Non-GAAP sales and marketing expenses	<u>\$ 17,013</u>	<u>\$ 17,225</u>	<u>\$ 16,914</u>	<u>\$ 51,152</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation and amortization of purchased intangible assets 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 financial 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-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP general and administrative expenses	\$ 8,314	\$ 7,829	\$ 8,780	\$ 24,923
Stock-based compensation	(2,215)	(1,864)	(1,955)	(6,034)
Non-GAAP general and administrative expenses	<u>\$ 6,099</u>	<u>\$ 5,965</u>	<u>\$ 6,825</u>	<u>\$ 18,889</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation is included in general and administrative expenses in accordance with GAAP, management believes that it is useful to exclude this amount in the calculation of the core level of general and administrative expenses for the reasons discussed above. This non-GAAP financial 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-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP operating expenses	\$ 61,857	\$ 62,906	\$ 61,570	\$ 186,333
Stock-based compensation	(8,826)	(8,351)	(7,806)	(24,983)
Amortization of purchased intangible assets	(808)	(809)	(269)	(1,886)
Acquisition-related stock-based compensation	(59)	(58)	(286)	(403)
Special charges	—	(848)	—	(848)
Non-GAAP operating expenses	<u>\$ 52,164</u>	<u>\$ 52,840</u>	<u>\$ 53,209</u>	<u>\$ 158,213</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation, acquisition-related charges and special charges 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 financial measure is useful to investors and is also useful to management in evaluating core operating expenses.

**Non-GAAP Operating Income**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP operating income	\$ 16,449	\$ 20,782	\$ 34,532	\$ 71,763
Stock-based compensation	9,560	9,006	8,456	27,022
Amortization of purchased intangible assets	2,210	2,616	1,893	6,719
Acquisition-related stock-based compensation	59	58	286	403
Special charges	—	848	—	848
Non-GAAP operating income	<u>\$ 28,278</u>	<u>\$ 33,310</u>	<u>\$ 45,167</u>	<u>\$ 106,755</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation, acquisition-related charges and special charges 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 financial measure is useful to investors and is also useful to management in evaluating core operating income.

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**Non-GAAP Interest and Other Income, Net**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP interest and other income, net	\$ 2,924	\$ 2,336	\$ 1,736	\$ 6,996
Gain on sales of previously impaired investment securities	<u>(605)</u>	<u>—</u>	<u>—</u>	<u>(605)</u>
Non-GAAP interest and other income, net	<u>\$ 2,319</u>	<u>\$ 2,336</u>	<u>\$ 1,736</u>	<u>\$ 6,391</u>

The Company has presented non-GAAP interest and other income, on a basis consistent with its historical presentation, to assist investors in understanding the Company's core interest and other income on an on-going basis. This non-GAAP financial measure may also assist investors in making comparisons of the Company's core interest and other income with historical periods and comparisons of the Company's core interest and other income with the corresponding performance for competitors. Management believes that on-going interest and other income is an important measure in the evaluation of the Company's results associated with non-operating activities. To the extent that gains on sales of previously impaired investment securities are included in interest and other income in accordance with GAAP, management believes that it is useful to exclude this amount in the calculation of the core level of interest and other income for the reasons discussed above. This non-GAAP financial measure is useful to investors and is also useful to management in evaluating core interest and other income.

**Non-GAAP Income before Income Taxes**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP income before income taxes	\$ 19,373	\$ 23,118	\$ 36,268	\$ 78,759
Stock-based compensation	9,560	9,006	8,456	27,022
Amortization of purchased intangible assets	2,210	2,616	1,893	6,719
Acquisition-related stock-based compensation	59	58	286	403
Special charges	—	848	—	848
Gain on sales of previously impaired investment securities	<u>(605)</u>	<u>—</u>	<u>—</u>	<u>(605)</u>
Non-GAAP income before income taxes	<u>\$ 30,597</u>	<u>\$ 35,646</u>	<u>\$ 46,903</u>	<u>\$ 113,146</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation, acquisition-related charges, special charges and gains on sales of previously impaired investment 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 financial measure is useful to investors and is also useful to management in evaluating core income before income taxes.

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**Non-GAAP Income Taxes**

	<u>Q1-FY10</u>	<u>Q2-FY10</u>	<u>Q3-FY10</u>	<u>Total YTD</u>
GAAP income taxes	\$ 4,410	\$ 6,955	\$ 7,620	\$ 18,985
Tax effect of items excluded from GAAP results	<u>2,292</u>	<u>3,571</u>	<u>3,084</u>	<u>8,947</u>
Non-GAAP income taxes	<u>\$ 6,702</u>	<u>\$ 10,526</u>	<u>\$ 10,704</u>	<u>\$ 27,932</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. This non-GAAP financial measure may also assist investors in making 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 stock-based compensation, acquisition-related charges, special charges and gains on sales of previously impaired investment securities are included in income before income taxes, and therefore the calculation of 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. Management also believes it is useful to exclude changes in valuation allowances related to deferred tax assets associated with non-core assets (i.e., investment securities) in the calculation of the core level of income taxes for the reasons discussed above. This non-GAAP financial measure is useful to investors and is also useful to management in evaluating core income tax expense.