

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

	Three months ended		Twelve months ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
Revenues:				
Product	\$ 742,128	\$ 1,117,967	\$ 2,843,243	\$ 3,446,125
License and royalty	121,749	127,858	508,109	450,241
Total revenues	<u>863,877</u>	<u>1,245,825</u>	<u>3,351,352</u>	<u>3,896,366</u>
Cost of product revenues	1,193,759	789,493	3,233,753	2,628,838
Amortization of acquisition-related intangible assets	10,766	14,582	54,512	64,809
Total cost of product revenues	<u>1,204,525</u>	<u>804,075</u>	<u>3,288,265</u>	<u>2,693,647</u>
Gross profit (loss)	<u>(340,648)</u>	<u>441,750</u>	<u>63,087</u>	<u>1,202,719</u>
Operating expenses:				
Research and development	101,812	110,708	429,949	418,066
Sales and marketing	82,426	105,416	328,079	294,594
General and administrative	46,186	47,772	204,765	181,509
Impairment of goodwill	845,453	-	845,453	-
Impairment of acquisition-related intangible assets	175,785	-	175,785	-
Amortization of acquisition-related intangible assets	3,275	4,558	17,069	25,308
Restructuring and other	31,382	-	35,467	6,728
Total operating expenses	<u>1,286,319</u>	<u>268,454</u>	<u>2,036,567</u>	<u>926,205</u>
Operating income (loss)	<u>(1,626,967)</u>	<u>173,296</u>	<u>(1,973,480)</u>	<u>276,514</u>
Other income	24,472	17,887	70,446	121,902
Income (loss) before provision for income taxes	<u>(1,602,495)</u>	<u>191,183</u>	<u>(1,903,034)</u>	<u>398,416</u>
Provision for income taxes	262,104	85,373	166,756	174,848
Income (loss) after taxes	<u>(1,864,599)</u>	<u>105,810</u>	<u>(2,069,790)</u>	<u>223,568</u>
Minority interest	-	-	-	5,211
Net income (loss)	<u>\$ (1,864,599)</u>	<u>\$ 105,810</u>	<u>\$ (2,069,790)</u>	<u>\$ 218,357</u>
Net income (loss) per share calculation:				
Net income (loss) used in computing basic net income (loss) per share	\$ (1,864,599)	\$ 105,810	\$ (2,069,790)	\$ 218,357
Tax-effected interest costs related to convertible long-term debt	-	117	-	469
Net income (loss) used in computing diluted net income (loss) per share	<u>\$ (1,864,599)</u>	<u>\$ 105,927</u>	<u>\$ (2,069,790)</u>	<u>\$ 218,826</u>
Net income (loss) per share:				
Basic	\$ (8.25)	\$ 0.47	\$ (9.19)	\$ 0.96
Diluted	\$ (8.25)	\$ 0.45	\$ (9.19)	\$ 0.93
Shares used in computing net income (loss) per share:				
Basic	226,079	226,871	225,292	227,744
Diluted	226,079	234,033	225,292	235,857

SanDisk Corporation
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results⁽¹⁾
(in thousands, except per share data, unaudited)

	Three months ended		Twelve months ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
SUMMARY RECONCILIATION OF NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ (1,864,599)	\$ 105,810	\$ (2,069,790)	\$ 218,357
Share-based compensation (a)	23,914	30,693	97,799	133,010
Impairment of goodwill and acquisition-related intangible assets (b)	1,021,238	-	1,021,238	-
Amortization of acquisition-related intangible assets (c)	14,041	19,140	71,581	90,117
Inventory step-up expense related to msystems acquisition (d)	-	-	-	7,066
Income tax adjustments (e)	433,061	5,985	400,184	(40,441)
NON-GAAP NET INCOME (LOSS)	<u>\$ (372,345)</u>	<u>\$ 161,628</u>	<u>\$ (478,988)</u>	<u>\$ 408,109</u>
GAAP COST OF PRODUCT REVENUES				
Share-based compensation (a)	\$ 1,204,525	\$ 804,075	\$ 3,288,265	\$ 2,693,647
Amortization of acquisition-related intangible assets (c)	(2,489)	(4,060)	(10,775)	(14,743)
Inventory step-up expense related to msystems acquisition (d)	(10,766)	(14,582)	(54,512)	(64,809)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 1,191,270</u>	<u>\$ 785,433</u>	<u>\$ 3,222,978</u>	<u>\$ 2,607,029</u>
GAAP GROSS PROFIT (LOSS)				
Share-based compensation (a)	\$ (340,648)	\$ 441,750	\$ 63,087	\$ 1,202,719
Amortization of acquisition-related intangible assets (c)	2,489	4,060	10,775	14,743
Inventory step-up expense related to msystems acquisition (d)	10,766	14,582	54,512	64,809
NON-GAAP GROSS PROFIT (LOSS)	<u>\$ (327,393)</u>	<u>\$ 460,392</u>	<u>\$ 128,374</u>	<u>\$ 1,289,337</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
Share-based compensation (a)	\$ 101,812	\$ 110,708	\$ 429,949	\$ 418,066
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ (10,161)</u>	<u>\$ (10,965)</u>	<u>\$ (38,854)</u>	<u>\$ (49,193)</u>
GAAP SALES AND MARKETING EXPENSES				
Share-based compensation (a)	\$ 82,426	\$ 105,416	\$ 328,079	\$ 294,594
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ (4,587)</u>	<u>\$ (6,482)</u>	<u>\$ (20,067)</u>	<u>\$ (31,722)</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
Share-based compensation (a)	\$ 77,839	\$ 98,934	\$ 308,012	\$ 262,872
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 46,186</u>	<u>\$ 47,772</u>	<u>\$ 204,765</u>	<u>\$ 181,509</u>
Share-based compensation (a)	(6,677)	(9,186)	(28,103)	(37,352)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 39,509</u>	<u>\$ 38,586</u>	<u>\$ 176,662</u>	<u>\$ 144,157</u>
GAAP TOTAL OPERATING EXPENSES				
Share-based compensation (a)	\$ 1,286,319	\$ 268,454	\$ 2,036,567	\$ 926,205
Impairment of goodwill and acquisition-related intangible assets (b)	(21,425)	(26,633)	(87,024)	(118,267)
Amortization of acquisition-related intangible assets (c)	(1,021,238)	-	(1,021,238)	-
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ (3,275)</u>	<u>\$ (4,558)</u>	<u>\$ (17,069)</u>	<u>\$ (25,308)</u>
GAAP OPERATING INCOME (LOSS)				
Cost of product revenues adjustments (a) (c) (d)	\$ (1,626,967)	\$ 173,296	\$ (1,973,480)	\$ 276,514
Operating expense adjustments (a) (b) (c)	13,255	18,642	65,287	86,618
NON-GAAP OPERATING INCOME (LOSS)	<u>\$ 1,045,938</u>	<u>\$ 31,191</u>	<u>\$ 1,125,331</u>	<u>\$ 143,575</u>
Income tax adjustments (e)	(567,774)	223,129	(782,862)	506,707
NON-GAAP NET INCOME (LOSS)	<u>\$ (1,864,599)</u>	<u>\$ 105,810</u>	<u>\$ (2,069,790)</u>	<u>\$ 218,357</u>
Cost of product revenues adjustments (a) (c) (d)	13,255	18,642	65,287	86,618
Operating expense adjustments (a) (b) (c)	1,045,938	31,191	1,125,331	143,575
Income tax adjustments (e)	433,061	5,985	400,184	(40,441)
NON-GAAP NET INCOME (LOSS)	<u>\$ (372,345)</u>	<u>\$ 161,628</u>	<u>\$ (478,988)</u>	<u>\$ 408,109</u>
Non-GAAP net income (loss) per share calculation				
Net income (loss) used in computing basic non-GAAP net income (loss) per share	\$ (372,345)	\$ 161,628	\$ (478,988)	\$ 408,109
Tax-effected interest costs related to convertible long-term debt	-	117	-	469
Net income (loss) used in computing diluted non-GAAP net income (loss) per share	<u>\$ (372,345)</u>	<u>\$ 161,745</u>	<u>\$ (478,988)</u>	<u>\$ 408,578</u>
Diluted net income (loss) per share:				
GAAP	\$ (8.25)	\$ 0.45	\$ (9.19)	\$ 0.93
Non-GAAP	\$ (1.65)	\$ 0.69	\$ (2.13)	\$ 1.73
Shares used in computing diluted net income (loss) per share:				
GAAP	226,079	234,033	225,292	235,857
Non-GAAP	226,079	234,154	225,292	236,614

SanDisk Corporation
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results ⁽¹⁾

(1) To supplement our condensed consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), we use non-GAAP measures of operating results, net income (loss) and net income (loss) 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 it is consistent with the financial models and estimates published by many analysts who follow the Company. For example, because the non-GAAP results exclude the expenses we recorded for share-based compensation in accordance with SFAS 123(R), the amortization of acquisition-related intangible assets related to acquisitions of Matrix Semiconductor, Inc. in January 2006, msystems Ltd. in November 2006 and MusicGremlin, Inc. in June 2008, and the impairment of goodwill and the acquisition-related intangible assets, we believe the inclusion of non-GAAP financial measures provide consistency in our financial reporting. These non-GAAP results are some of the primary indicators management uses for assessing our performance, allocating resources and planning and forecasting future periods. Further, management uses non-GAAP information that excludes certain non-cash charges, such as impairment of goodwill and acquisition-related intangible assets, amortization of purchased intangible assets, and share-based compensation, as these non-GAAP charges do not reflect the cash operating results of the business or the ongoing results. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. These non-GAAP measures may be different than the non-GAAP measures used by other companies.

- (a) Share-based compensation expense.
- (b) Impairment of goodwill and acquisition-related intangible assets primarily relating to acquisitions of Matrix Semiconductor, Inc. (January 2006), msystems Ltd. (November 2006), and MusicGremlin, Inc. (June 2008).
- (c) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), msystems Ltd. (November 2006), and MusicGremlin, Inc. (June 2008).
- (d) Inventory step-up expense related to msystems Ltd. acquisition.
- (e) Income taxes associated with certain non-GAAP to GAAP adjustments and a valuation allowance on deferred taxes.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(in thousands, unaudited)

	December 28, 2008	December 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 962,061	\$ 833,749
Short-term investments	477,296	1,001,641
Accounts receivable from product revenues, net	122,092	462,983
Inventory	598,251	555,077
Deferred taxes	36,153	212,255
Other current assets	459,306	233,952
Total current assets	2,655,159	3,299,657
Long-term investments	1,097,302	1,060,393
Property and equipment, net	396,987	422,895
Notes receivable and investments in the flash ventures with Toshiba	1,602,291	1,108,905
Deferred taxes	15,188	117,130
Goodwill	-	840,870
Intangibles, net	63,182	322,023
Other non-current assets	48,641	62,946
Total assets	\$ 5,878,750	\$ 7,234,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	\$ 240,985	\$ 285,711
Accounts payable to related parties	370,006	158,443
Other current accrued liabilities	502,345	286,850
Deferred income on shipments to distributors and retailers and deferred revenue	149,575	182,879
Total current liabilities	1,262,911	913,883
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities	228,903	135,252
Total liabilities	2,716,814	2,274,135
Minority interest	151	1,067
Stockholders' equity:		
Common stock	3,912,529	3,797,073
Retained earnings (accumulated deficit)	(939,721)	1,130,069
Accumulated other comprehensive income	188,977	32,475
Total stockholders' equity	3,161,785	4,959,617
Total liabilities and stockholders' equity	\$ 5,878,750	\$ 7,234,819

SanDisk Corporation
Preliminary Condensed Consolidated Statement of Cash Flows
(in thousands, unaudited)

	Three months ended		Twelve months ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
Cash flows from operating activities:				
Net income (loss)	\$ (1,864,599)	\$ 105,810	\$ (2,069,790)	\$ 218,357
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred and other taxes	378,474	(26,171)	347,690	(35,188)
Depreciation and amortization	57,435	59,299	257,389	255,743
Provision for doubtful accounts	2,567	553	8,778	3,530
Share-based compensation expense	23,914	30,693	97,799	133,010
Excess tax benefit from share-based compensation	99	(2,661)	(1,938)	(18,375)
Impairment, restructuring and other charges	1,118,829	-	1,146,407	-
Other non-cash charges	3,210	12,773	18,940	12,721
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(6,097)	(25,520)	332,113	145,657
Inventory	114,367	(10,375)	(42,969)	(57,586)
Other assets	(338,898)	(81,790)	(310,648)	(34,789)
Accounts payable trade	(5,191)	62,368	(48,727)	23,772
Accounts payable to related parties	244,570	(1,547)	215,563	20,966
Other liabilities	336,004	25,777	136,201	(14,891)
Total adjustments	1,929,283	43,399	2,156,598	434,570
Net cash provided by operating activities	64,684	149,209	86,808	652,927
Cash flows from investing activities:				
Purchases of short and long-term investments	(317,828)	(572,012)	(1,986,338)	(3,717,897)
Proceeds from sale of short and long-term investments	408,146	541,615	1,697,052	2,033,871
Maturities of short and long-term investments	264,474	222,886	744,322	1,365,712
Proceeds from sales of property and equipment	-	2,328	39,680	-
Acquisition of property and equipment	(31,673)	(81,379)	(184,033)	(258,954)
Investment in Flash Alliance Ltd.	-	(87,544)	(96,705)	(125,547)
Distribution from FlashVision Ltd.	-	-	102,530	-
Proceeds from notes receivable from FlashVision Ltd.	-	-	-	37,512
Issuance of notes receivable from Flash Partners Ltd.	-	(115,651)	(37,418)	(525,252)
Issuance of notes receivable from Flash Alliance Ltd.	(156,960)	-	(250,070)	-
Purchased technology and other assets	5,786	-	4,911	(27,803)
Acquisition of MusicGremlin, Inc.	-	-	(4,604)	-
Net cash provided by (used in) investing activities	171,945	(89,757)	29,327	(1,218,358)
Cash flows from financing activities:				
Proceeds (repayment) from debt financing	-	2,000	(9,785)	9,803
Proceeds from employee stock programs	343	3,001	19,701	100,311
Distribution to minority interest	-	-	-	(9,880)
Excess tax benefit from share-based compensation	(99)	2,661	1,938	18,375
Share repurchase programs	-	(202,190)	-	(299,607)
Net cash provided by (used in) financing activities	244	(194,528)	11,854	(180,998)
Effect of changes in foreign currency exchange rates on cash	4,081	(2,097)	323	(522)
Net increase (decrease) in cash and cash equivalents	240,954	(137,173)	128,312	(746,951)
Cash and cash equivalents at beginning of period	721,107	970,922	833,749	1,580,700
Cash and cash equivalents at end of period	\$ 962,061	\$ 833,749	\$ 962,061	\$ 833,749