

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

	Three months ended		Nine months ended	
	September 27, 2009	September 28, 2008 ⁽¹⁾	September 27, 2009	September 28, 2008 ⁽¹⁾
Revenues:				
Product	\$ 813,811	\$ 689,556	\$ 2,012,342	\$ 2,101,115
License and royalty	121,360	131,941	312,873	386,360
Total revenues	<u>935,171</u>	<u>821,497</u>	<u>2,325,215</u>	<u>2,487,475</u>
Cost of product revenues	495,769	812,832	1,631,691	2,039,994
Amortization of acquisition-related intangible assets	3,132	14,582	9,396	43,746
Total cost of product revenues	<u>498,901</u>	<u>827,414</u>	<u>1,641,087</u>	<u>2,083,740</u>
Gross profit (loss)	436,270	(5,917)	684,128	403,735
Operating expenses:				
Research and development	94,925	104,560	273,080	328,137
Sales and marketing	55,750	87,859	144,037	245,653
General and administrative	45,350	47,091	122,311	158,579
Amortization of acquisition-related intangible assets	292	4,766	875	13,794
Restructuring and other	-	-	765	4,085
Total operating expenses	<u>196,317</u>	<u>244,276</u>	<u>541,068</u>	<u>750,248</u>
Operating income (loss)	239,953	(250,193)	143,060	(346,513)
Other income (expense)	(2,538)	(12,901)	(16,515)	9,307
Income (loss) before income taxes	<u>237,415</u>	<u>(263,094)</u>	<u>126,545</u>	<u>(337,206)</u>
Provision for (benefit from) income taxes	6,122	(97,195)	50,740	(108,513)
Net income (loss)	<u>\$ 231,293</u>	<u>\$ (165,899)</u>	<u>\$ 75,805</u>	<u>\$ (228,693)</u>
Net income (loss) per share:				
Basic	\$ 1.02	\$ (0.74)	\$ 0.33	\$ (1.02)
Diluted	\$ 0.99	\$ (0.74)	\$ 0.33	\$ (1.02)
Shares used in computing net income (loss) per share:				
Basic	227,771	225,682	227,092	225,030
Diluted	232,724	225,682	230,936	225,030

(1) As adjusted for the retrospective adoption of new accounting requirements, effective on December 29, 2008, relating to non-cash economic interest expense associated with the Company's cash-settled convertible debt.

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

	Three months ended		Nine months ended	
	September 27, 2009	September 28, 2008 ⁽²⁾	September 27, 2009	September 28, 2008 ⁽²⁾
SUMMARY RECONCILIATION OF NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ 231,293	\$ (165,899)	\$ 75,805	\$ (228,693)
Share-based compensation (a)	19,374	25,551	58,058	73,885
Amortization of acquisition-related intangible assets (b)	3,424	19,348	10,271	57,540
Convertible debt interest (c)	13,410	12,451	39,495	36,667
Income tax adjustments (d)	(91,990)	(23,539)	(33,633)	(46,042)
NON-GAAP NET INCOME (LOSS)	<u>\$ 175,511</u>	<u>\$ (132,088)</u>	<u>\$ 149,996</u>	<u>\$ (106,643)</u>
GAAP COST OF PRODUCT REVENUES	\$ 498,901	\$ 827,414	\$ 1,641,087	\$ 2,083,740
Share-based compensation (a)	(2,347)	(2,648)	(7,167)	(8,286)
Amortization of acquisition-related intangible assets (b)	(3,132)	(14,582)	(9,396)	(43,746)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 493,422</u>	<u>\$ 810,184</u>	<u>\$ 1,624,524</u>	<u>\$ 2,031,708</u>
GAAP GROSS PROFIT (LOSS)	\$ 436,270	\$ (5,917)	\$ 684,128	\$ 403,735
Share-based compensation (a)	2,347	2,648	7,167	8,286
Amortization of acquisition-related intangible assets (b)	3,132	14,582	9,396	43,746
NON-GAAP GROSS PROFIT	<u>\$ 441,749</u>	<u>\$ 11,313</u>	<u>\$ 700,691</u>	<u>\$ 455,767</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 94,925	\$ 104,560	\$ 273,080	\$ 328,137
Share-based compensation (a)	(7,137)	(10,543)	(22,341)	(28,693)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 87,788</u>	<u>\$ 94,017</u>	<u>\$ 250,739</u>	<u>\$ 299,444</u>
GAAP SALES AND MARKETING EXPENSES	\$ 55,750	\$ 87,859	\$ 144,037	\$ 245,653
Share-based compensation (a)	(3,918)	(5,546)	(11,153)	(15,480)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 51,832</u>	<u>\$ 82,313</u>	<u>\$ 132,884</u>	<u>\$ 230,173</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 45,350	\$ 47,091	\$ 122,311	\$ 158,579
Share-based compensation (a)	(5,972)	(6,814)	(17,397)	(21,426)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 39,378</u>	<u>\$ 40,277</u>	<u>\$ 104,914</u>	<u>\$ 137,153</u>
GAAP TOTAL OPERATING EXPENSES	\$ 196,317	\$ 244,276	\$ 541,068	\$ 750,248
Share-based compensation (a)	(17,027)	(22,903)	(50,891)	(65,599)
Amortization of acquisition-related intangible assets (b)	(292)	(4,766)	(875)	(13,794)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 178,998</u>	<u>\$ 216,607</u>	<u>\$ 489,302</u>	<u>\$ 670,855</u>
GAAP OPERATING INCOME (LOSS)	\$ 239,953	\$ (250,193)	\$ 143,060	\$ (346,513)
Cost of product revenues adjustments (a) (b)	5,479	17,230	16,563	52,032
Operating expense adjustments (a) (b)	17,319	27,669	51,766	79,393
NON-GAAP OPERATING INCOME (LOSS)	<u>\$ 262,751</u>	<u>\$ (205,294)</u>	<u>\$ 211,389</u>	<u>\$ (215,088)</u>
GAAP OTHER INCOME (EXPENSE)	\$ (2,538)	\$ (12,901)	\$ (16,515)	\$ 9,307
Convertible debt interest (c)	13,410	12,451	39,495	36,667
NON-GAAP OTHER INCOME (EXPENSE)	<u>\$ 10,872</u>	<u>\$ (450)</u>	<u>\$ 22,980</u>	<u>\$ 45,974</u>
GAAP NET INCOME (LOSS)	\$ 231,293	\$ (165,899)	\$ 75,805	\$ (228,693)
Cost of product revenues adjustments (a) (b)	5,479	17,230	16,563	52,032
Operating expense adjustments (a) (b)	17,319	27,669	51,766	79,393
Convertible debt interest (c)	13,410	12,451	39,495	36,667
Income tax adjustments (d)	(91,990)	(23,539)	(33,633)	(46,042)
NON-GAAP NET INCOME (LOSS)	<u>\$ 175,511</u>	<u>\$ (132,088)</u>	<u>\$ 149,996</u>	<u>\$ (106,643)</u>
Diluted net income (loss) per share:				
GAAP	\$ 0.99	\$ (0.74)	\$ 0.33	\$ (1.02)
Non-GAAP	\$ 0.75	\$ (0.59)	\$ 0.65	\$ (0.47)
Shares used in computing diluted net income (loss) per share:				
GAAP	232,724	225,682	230,936	225,030
Non-GAAP	232,961	225,682	231,424	225,030

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, 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 non-cash economic interest expense associated with our cash-settled convertible debt, 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 amortization of purchased intangible assets, share-based compensation, and non-cash economic interest expense associated with our cash-settled convertible debt, 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.
- (2) As adjusted for the retrospective adoption of new accounting requirements, effective on December 29, 2008, relating to non-cash economic interest expense associated with the Company's cash-settled convertible debt.
- (a) Share-based compensation expense.
- (b) 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).
- (c) Incremental interest expense relating to the non-cash economic interest expense associated with the Company's cash-settled convertible debt.
- (d) 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)

	September 27, 2009	December 28, 2008 ⁽¹⁾
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 752,483	\$ 962,061
Short-term investments	699,577	477,296
Accounts receivable from product revenues, net	279,676	122,092
Inventory	620,976	598,251
Deferred taxes	84,680	84,023
Other current assets	75,542	469,961
Total current assets	2,512,934	2,713,684
Long-term investments	1,132,365	1,097,302
Property and equipment, net	322,428	396,987
Notes receivable and investments in the flash ventures with Toshiba	1,600,810	1,602,291
Deferred taxes	14,941	15,188
Intangible assets, net	63,663	63,182
Other non-current assets	102,143	43,506
Total assets	\$ 5,749,284	\$ 5,932,140
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 123,454	\$ 240,985
Accounts payable to related parties	292,737	370,006
Convertible short-term debt	75,000	-
Other current accrued liabilities	216,317	502,443
Deferred income on shipments to distributors and retailers and deferred revenue	246,279	149,575
Total current liabilities	953,787	1,263,009
Convertible long-term debt	919,470	954,094
Non-current liabilities	317,824	274,316
Total liabilities	2,191,081	2,491,419
EQUITY		
Stockholders' equity:		
Common stock	4,225,645	4,154,392
Accumulated deficit	(826,994)	(902,799)
Accumulated other comprehensive income	160,962	188,977
Total stockholders' equity	3,559,613	3,440,570
Non-controlling interests	(1,410)	151
Total equity	3,558,203	3,440,721
Total liabilities and equity	\$ 5,749,284	\$ 5,932,140

(1) As adjusted for the retrospective adoption of new accounting requirements, effective on December 29, 2008, relating to non-cash economic interest expense associated with the Company's cash-settled convertible debt.

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

	Three months ended		Nine months ended	
	September 27, 2009	September 28, 2008 ⁽¹⁾	September 27, 2009	September 28, 2008 ⁽¹⁾
Cash flows from operating activities:				
Net income (loss)	\$ 231,293	\$ (165,899)	\$ 75,805	\$ (228,693)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Deferred and other taxes	218	(30,318)	2,521	(43,949)
Depreciation	37,943	47,466	114,595	134,341
Amortization	19,576	34,566	56,686	102,280
Provision for doubtful accounts	2,454	(740)	1,675	6,211
Share-based compensation expense	19,374	25,551	58,058	73,885
Excess tax benefit from share-based compensation	-	(360)	-	(2,037)
Impairment, restructuring and other charges	(1,432)	23,095	5,701	27,578
Other non-cash charges	1,950	8,446	983	15,730
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(131,300)	86,208	(159,260)	338,210
Inventory	(98,699)	83,023	(37,151)	(157,336)
Other assets	68,467	77,825	339,275	28,250
Accounts payable trade	7,061	4,353	(117,625)	(43,536)
Accounts payable to related parties	45,994	(2,752)	(77,269)	(29,007)
Other liabilities	35,473	(54,327)	(164,170)	(199,803)
Total adjustments	7,079	302,036	24,019	250,817
Net cash provided by operating activities	238,372	136,137	99,824	22,124
Cash flows from investing activities:				
Purchases of short and long-term investments	(701,768)	(776,290)	(1,237,877)	(1,668,510)
Proceeds from sale of short and long-term investments	285,088	560,010	860,855	1,288,906
Maturities of short and long-term investments	55,477	127,285	143,117	479,848
Acquisition of property and equipment, net	(10,687)	(5,768)	(43,354)	(112,680)
Investment in Flash Alliance Ltd.	-	-	-	(96,705)
Distribution from FlashVision Ltd.	-	73,543	12,713	102,530
Issuance of notes receivable from Flash Partners Ltd. and Flash Alliance Ltd.	-	-	(377,923)	(37,418)
Proceeds from notes receivable from Flash Partners Ltd. and Flash Alliance Ltd.	-	(93,110)	330,149	(93,110)
Purchased technology and other assets	(7,500)	1,000	(13,790)	(875)
Acquisition of MusicGremlin, Inc.	-	(76)	-	(4,604)
Net cash used in investing activities	(379,390)	(113,406)	(326,110)	(142,618)
Cash flows from financing activities:				
Repayment of debt financing	-	-	-	(9,785)
Proceeds from employee stock programs	7,723	10,008	13,998	19,358
Excess tax benefit from share-based compensation	-	360	-	2,037
Net cash provided by financing activities	7,723	10,368	13,998	11,610
Effect of changes in foreign currency exchange rates on cash	1,251	(1,570)	2,710	(3,758)
Net increase (decrease) in cash and cash equivalents	(132,044)	31,529	(209,578)	(112,642)
Cash and cash equivalents at beginning of period	884,527	689,578	962,061	833,749
Cash and cash equivalents at end of period	<u>\$ 752,483</u>	<u>\$ 721,107</u>	<u>\$ 752,483</u>	<u>\$ 721,107</u>

(1) As adjusted for the retrospective adoption of new accounting requirements, effective on December 29, 2008, relating to non-cash economic interest expense associated with the Company's cash-settled convertible debt.