

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

	Three months ended	
	March 30, 2008	April 1, 2007
Revenues:		
Product	\$ 724,051	\$ 689,357
License and royalty	125,916	96,729
Total revenues	849,967	786,086
Cost of product revenues	576,604	570,088
Amortization of acquisition-related intangible assets	14,582	21,062
Total cost of product revenues	591,186	591,150
Gross profit	258,781	194,936
Operating expenses:		
Research and development	111,434	95,640
Sales and marketing	80,156	56,206
General and administrative	57,804	46,991
Restructuring	-	6,516
Amortization of acquisition-related intangible assets	4,475	9,100
Total operating expenses	253,869	214,453
Operating income (loss)	4,912	(19,517)
Total other income	25,882	36,259
Income before provision for income taxes	30,794	16,742
Provision for income taxes	12,914	12,157
Income after taxes	17,880	4,585
Minority interest	-	5,160
Net income (loss)	\$ 17,880	\$ (575)
Net income (loss) per share calculation:		
Net income (loss) used in computing basic net income (loss) per share	\$ 17,880	\$ (575)
Tax-effected interest costs related to convertible long term debt	117	-
Net income (loss) used in computing diluted net income (loss) per share	\$ 17,997	\$ (575)
Net income (loss) per share:		
Basic	\$ 0.08	\$ (0.00)
Diluted	\$ 0.08	\$ (0.00)
Shares used in computing net income (loss) per share:		
Basic	224,518	227,455
Diluted	229,480	227,455

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Reconciliation of GAAP to Non-GAAP Operating Results <sup>(1)</sup>  
(in thousands, except per share data, unaudited)

	Three months ended	
	March 30, 2008	April 1, 2007
<b>SUMMARY RECONCILIATION OF NET INCOME</b>		
<b>GAAP NET INCOME (LOSS)</b>	\$ 17,880	\$ (575)
Adjustments:		
Share-based compensation (a)	23,226	31,219
Amortization of acquisition-related intangible assets (b)	19,057	30,162
Inventory step-up expense related to msystems acquisition (c)	-	4,947
Income tax adjustments (d)	(12,377)	(20,918)
<b>NON-GAAP NET INCOME</b>	<u>\$ 47,786</u>	<u>\$ 44,835</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 591,186	\$ 591,150
Share-based compensation (a)	(3,629)	(3,214)
Amortization of acquisition-related intangible assets (b)	(14,582)	(21,062)
Inventory step-up expense related to msystems acquisition (c)	-	(4,947)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 572,975</u>	<u>\$ 561,927</u>
<b>GAAP GROSS PROFIT</b>	\$ 258,781	\$ 194,936
Share-based compensation (a)	3,629	3,214
Amortization of acquisition-related intangible assets (b)	14,582	21,062
Inventory step-up expense related to msystems acquisition (c)	-	4,947
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 276,992</u>	<u>\$ 224,159</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 111,434	\$ 95,640
Share-based compensation (a)	(8,826)	(12,687)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 102,608</u>	<u>\$ 82,953</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 80,156	\$ 56,206
Share-based compensation (a)	(3,511)	(6,923)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 76,645</u>	<u>\$ 49,283</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 57,804	\$ 46,991
Share-based compensation (a)	(7,260)	(8,395)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 50,544</u>	<u>\$ 38,596</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 253,869	\$ 214,453
Share-based compensation (a)	(19,597)	(28,005)
Write-off of acquired in-process technology (L)	-	-
Amortization of acquisition-related intangible assets (b)	(4,475)	(9,100)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 229,797</u>	<u>\$ 177,348</u>
<b>GAAP OPERATING INCOME (LOSS)</b>	\$ 4,912	\$ (19,517)
Cost of product revenues adjustments (a) (b) (c)	18,211	29,223
Operating expense adjustments (a) (b)	24,072	37,105
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 47,195</u>	<u>\$ 46,811</u>
<b>GAAP NET INCOME (LOSS)</b>	\$ 17,880	\$ (575)
Cost of product revenues adjustments (a) (b) (c)	18,211	29,223
Operating expense adjustments (a) (b)	24,072	37,105
Income tax adjustments (d)	(12,377)	(20,918)
<b>NON-GAAP NET INCOME</b>	<u>\$ 47,786</u>	<u>\$ 44,835</u>
<b>Net income (loss) per share calculation: GAAP</b>		
Net income (loss) used in computing basic GAAP net income per share	\$ 17,880	\$ (575)
Tax-effected interest costs related to convertible long term debt	117	-
Net income (loss) used in computing diluted net income per share	<u>\$ 17,997</u>	<u>\$ (575)</u>
<b>Net income per share calculation: Non-GAAP</b>		
Net income used in computing basic Non-GAAP net income per share	\$ 47,786	\$ 44,835
Tax-effected interest costs related to convertible long term debt	117	117
Net income used in computing diluted net income per share	<u>\$ 47,903</u>	<u>\$ 44,952</u>
Diluted net income (loss) per share:		
GAAP	\$ 0.08	\$ (0.00)
Non-GAAP	\$ 0.21	\$ 0.19
Shares used in computing diluted net income (loss) per share:		
GAAP	229,480	227,455
Non-GAAP	229,383	236,426

SanDisk Corporation  
Reconciliation of GAAP to Non-GAAP Operating Results<sup>(1)</sup>

(1) To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), we use non-GAAP measures of operating results, net income and earnings 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 measures 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) effective January 2, 2006 and the acquisition of Matrix Semiconductor, Inc. in January 2006 and msystems Ltd. in November 2006, 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 as certain non-cash charges such as amortization of purchased intangibles and share-based compensation do not reflect the cash operating results of the business and certain one-time expenses such as write-off of acquired in-process technology do not reflect 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) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisition of Matrix (January 2006) and msystems (November 2006).
- (c) Inventory step-up expense related to msystems acquisition.
- (d) Income taxes associated with certain non-GAAP adjustments.

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Preliminary Condensed Consolidated Balance Sheets  
(in thousands)

<b>ASSETS</b>	<u>March 30, 2008</u> (unaudited)	<u>December 30, 2007</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,225,285	\$ 833,749
Short-term investments	628,416	1,001,641
Accounts receivable from product revenues, net	180,273	462,983
Inventory	694,823	555,077
Deferred taxes	190,839	212,255
Other current assets	117,570	233,952
Total current assets	3,037,206	3,299,657
Long-term investments	1,169,993	1,060,393
Property and equipment, net	457,666	422,895
Notes receivable and investments in flash ventures with Toshiba	1,299,225	1,108,905
Deferred taxes	123,666	117,130
Goodwill	840,853	840,870
Intangibles, net	301,208	322,023
Other non-current assets	57,115	62,946
Total Assets	\$ 7,286,932	\$ 7,234,819
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 233,363	\$ 285,711
Accounts payable to related parties	161,498	158,443
Other current accrued liabilities	277,581	286,850
Deferred income on shipments to distributors and retailers and deferred revenue	158,478	182,879
Total current liabilities	830,920	913,883
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities	179,894	135,252
Total Liabilities	2,235,814	2,274,135
Minority interest	151	1,067
<b>Stockholders' Equity:</b>		
Common stock	3,825,827	3,797,073
Retained earnings	1,147,949	1,130,069
Accumulated other comprehensive income	77,191	32,475
Total Stockholders' Equity	5,050,967	4,959,617
Total Liabilities and Stockholders' Equity	\$ 7,286,932	\$ 7,234,819

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

	Three months ended	
	March 30, 2008	April 1, 2007
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 17,880	\$ (575)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred and other taxes	(4,369)	11,431
(Gain) loss on equity investments	3,934	(2,204)
Depreciation and amortization	62,883	65,096
Provision for doubtful accounts	5,774	913
Share-based compensation expense	23,226	31,219
Excess tax benefit from share-based compensation	(794)	(6,261)
Other non-cash charges	5,392	5,693
Changes in operating assets and liabilities:		
Accounts receivable from product revenues	251,138	467,030
Inventory	(140,362)	(98,109)
Other assets	135,780	63,426
Accounts payable trade	(52,348)	(73,234)
Accounts payable to related parties	3,055	22,547
Other liabilities	(92,556)	(231,723)
Total adjustments	<u>200,753</u>	<u>255,824</u>
Net cash provided by operating activities	<u>218,633</u>	<u>255,249</u>
<b>Cash flows from investing activities:</b>		
Purchases of short and long-term investments	(354,955)	(537,162)
Proceeds from sale and maturities of short and long-term investments	624,413	549,146
Acquisition of property and equipment, net	(56,774)	(43,799)
Notes receivable from FlashVision Ltd.	-	24,777
Notes receivable from Flash Partners Ltd.	(37,418)	-
Purchased technology and other assets	1,125	(13,240)
Net cash provided by (used in) investing activities	<u>176,391</u>	<u>(20,278)</u>
<b>Cash flows from financing activities:</b>		
Repayment from debt financing	(9,785)	-
Proceeds from employee stock programs	6,437	38,370
Distribution to minority interest	-	(7,485)
Excess tax benefit from share-based compensation	794	6,261
Share repurchase programs	-	(42,096)
Net cash used in financing activities	<u>(2,554)</u>	<u>(4,950)</u>
Effect of changes in foreign currency exchange rates on cash	<u>(934)</u>	<u>388</u>
Net increase in cash and cash equivalents	391,536	230,409
Cash and cash equivalents at beginning of period	833,749	1,580,700
Cash and cash equivalents at end of period	<u>\$ 1,225,285</u>	<u>\$ 1,811,109</u>