

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

	Three months ended		Nine months ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Revenues:				
Product	\$ 689,556	\$ 918,810	\$ 2,101,115	\$ 2,328,158
License and royalty	131,941	118,613	386,360	322,383
Total revenues	821,497	1,037,423	2,487,475	2,650,541
Cost of product revenues	812,832	680,521	2,039,994	1,839,345
Amortization of acquisition-related intangible assets	14,582	14,582	43,746	50,227
Total cost of product revenues	827,414	695,103	2,083,740	1,889,572
Gross profit (loss)	(5,917)	342,320	403,735	760,969
Operating expenses:				
Research and development	104,560	110,533	328,137	307,358
Sales and marketing	87,859	72,455	245,653	189,178
General and administrative	47,091	45,581	158,579	133,737
Amortization of acquisition-related intangible assets	4,766	4,600	13,794	20,750
Restructuring	-	-	4,085	6,728
Total operating expenses	244,276	233,169	750,248	657,751
Operating income (loss)	(250,193)	109,151	(346,513)	103,218
Total other income (expense)	(450)	29,200	45,974	104,015
Income (loss) before provision for (benefit from) income taxes	(250,643)	138,351	(300,539)	207,233
Provision for (benefit from) income taxes	(95,449)	53,713	(95,348)	89,475
Income (loss) after taxes	(155,194)	84,638	(205,191)	117,758
Minority interest	-	-	-	5,211
Net income (loss)	<u>\$ (155,194)</u>	<u>\$ 84,638</u>	<u>\$ (205,191)</u>	<u>\$ 112,547</u>
Net income (loss) per share:				
Basic	\$ (0.69)	\$ 0.37	\$ (0.91)	\$ 0.49
Diluted	\$ (0.69)	\$ 0.36	\$ (0.91)	\$ 0.48
Shares used in computing net income (loss) per share:				
Basic	225,682	228,689	225,030	228,034
Diluted	225,682	236,930	225,030	235,992

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 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
SUMMARY RECONCILIATION OF NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ (155,194)	\$ 84,638	\$ (205,191)	\$ 112,547
Share-based compensation (a)	25,551	34,127	73,885	102,317
Amortization of acquisition-related intangible assets (b)	19,348	19,182	57,540	70,977
Inventory step-up expense related to msystems acquisition (c)	-	-	-	7,066
Income tax adjustments (d)	(21,793)	(8,144)	(32,877)	(46,427)
NON-GAAP NET INCOME (LOSS)	<u>\$ (132,088)</u>	<u>\$ 129,803</u>	<u>\$ (106,643)</u>	<u>\$ 246,480</u>
GAAP COST OF PRODUCT REVENUES				
GAAP COST OF PRODUCT REVENUES	\$ 827,414	\$ 695,103	\$ 2,083,740	\$ 1,889,572
Share-based compensation (a)	(2,648)	(4,162)	(8,286)	(10,683)
Amortization of acquisition-related intangible assets (b)	(14,582)	(14,582)	(43,746)	(50,227)
Inventory step-up expense related to msystems acquisition (c)	-	-	-	(7,066)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 810,184</u>	<u>\$ 676,359</u>	<u>\$ 2,031,708</u>	<u>\$ 1,821,596</u>
GAAP GROSS PROFIT (LOSS)				
GAAP GROSS PROFIT (LOSS)	\$ (5,917)	\$ 342,320	\$ 403,735	\$ 760,969
Share-based compensation (a)	2,648	4,162	8,286	10,683
Amortization of acquisition-related intangible assets (b)	14,582	14,582	43,746	50,227
Inventory step-up expense related to msystems acquisition (c)	-	-	-	7,066
NON-GAAP GROSS PROFIT (LOSS)	<u>\$ 11,313</u>	<u>\$ 361,064</u>	<u>\$ 455,767</u>	<u>\$ 828,945</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 104,560	\$ 110,533	\$ 328,137	\$ 307,358
Share-based compensation (a)	(10,543)	(12,528)	(28,693)	(38,228)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 94,017</u>	<u>\$ 98,005</u>	<u>\$ 299,444</u>	<u>\$ 269,130</u>
GAAP SALES AND MARKETING EXPENSES				
GAAP SALES AND MARKETING EXPENSES	\$ 87,859	\$ 72,455	\$ 245,653	\$ 189,178
Share-based compensation (a)	(5,546)	(7,956)	(15,480)	(25,240)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 82,313</u>	<u>\$ 64,499</u>	<u>\$ 230,173</u>	<u>\$ 163,938</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 47,091	\$ 45,581	\$ 158,579	\$ 133,737
Share-based compensation (a)	(6,814)	(9,481)	(21,426)	(28,166)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 40,277</u>	<u>\$ 36,100</u>	<u>\$ 137,153</u>	<u>\$ 105,571</u>
GAAP TOTAL OPERATING EXPENSES				
GAAP TOTAL OPERATING EXPENSES	\$ 244,276	\$ 233,169	\$ 750,248	\$ 657,751
Share-based compensation (a)	(22,903)	(29,965)	(65,599)	(91,634)
Amortization of acquisition-related intangible assets (b)	(4,766)	(4,600)	(13,794)	(20,750)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 216,607</u>	<u>\$ 198,604</u>	<u>\$ 670,855</u>	<u>\$ 545,367</u>
GAAP OPERATING INCOME (LOSS)				
GAAP OPERATING INCOME (LOSS)	\$ (250,193)	\$ 109,151	\$ (346,513)	\$ 103,218
Cost of product revenues adjustments (a) (b) (c)	17,230	18,744	52,032	67,976
Operating expense adjustments (a) (b)	27,669	34,565	79,393	112,384
NON-GAAP OPERATING INCOME (LOSS)	<u>\$ (205,294)</u>	<u>\$ 162,460</u>	<u>\$ (215,088)</u>	<u>\$ 283,578</u>
GAAP NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ (155,194)	\$ 84,638	\$ (205,191)	\$ 112,547
Cost of product revenues adjustments (a) (b) (c)	17,230	18,744	52,032	67,976
Operating expense adjustments (a) (b)	27,669	34,565	79,393	112,384
Income tax adjustments (d)	(21,793)	(8,144)	(32,877)	(46,427)
NON-GAAP NET INCOME (LOSS)	<u>\$ (132,088)</u>	<u>\$ 129,803</u>	<u>\$ (106,643)</u>	<u>\$ 246,480</u>
Diluted net income (loss) per share:				
GAAP	\$ (0.69)	\$ 0.36	\$ (0.91)	\$ 0.48
Non-GAAP	\$ (0.59)	\$ 0.54	\$ (0.47)	\$ 1.04
Shares used in computing diluted net income (loss) per share:				
GAAP	225,682	236,930	225,030	235,992
Non-GAAP	225,682	238,643	225,030	237,313

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

(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 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) effective January 2, 2006 and the acquisition of Matrix Semiconductor, Inc. in January 2006, msystems Ltd. in November 2006 and MusicGremlin, Inc. in June 2008, 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), msystems (November 2006), and MusicGremlin (June 2008).
- (c) Inventory step-up expense related to msystems acquisition.
- (d) Income taxes associated with certain non-GAAP adjustments.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(in thousands)

	September 28, 2008	December 30, 2007
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 721,107	\$ 833,749
Short-term investments	853,111	1,001,641
Accounts receivable from product revenues, net	118,563	462,983
Inventory	712,406	555,077
Deferred taxes	186,726	212,255
Other current assets	309,508	233,952
Total current assets	<u>2,901,421</u>	<u>3,299,657</u>
Long-term investments	1,070,040	1,060,393
Property and equipment, net	409,281	422,895
Notes receivable and investments in flash ventures with Toshiba	1,294,654	1,108,905
Deferred taxes	169,819	117,130
Goodwill	844,101	840,870
Intangibles, net	265,483	322,023
Other non-current assets	<u>58,236</u>	<u>62,946</u>
Total Assets	<u><u>\$ 7,013,035</u></u>	<u><u>\$ 7,234,819</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 242,175	\$ 285,711
Accounts payable to related parties	129,436	158,443
Other current accrued liabilities	221,969	286,850
Deferred income on shipments to distributors and retailers and deferred revenue	<u>158,717</u>	<u>182,879</u>
Total current liabilities	752,297	913,883
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities	<u>184,344</u>	<u>135,252</u>
Total Liabilities	2,161,641	2,274,135
Minority interest	151	1,067
Stockholders' Equity:		
Common stock	3,888,150	3,797,073
Retained earnings	924,878	1,130,069
Accumulated other comprehensive income	<u>38,215</u>	<u>32,475</u>
Total Stockholders' Equity	<u>4,851,243</u>	<u>4,959,617</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 7,013,035</u></u>	<u><u>\$ 7,234,819</u></u>

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

	Three months ended		Nine months ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
Cash flows from operating activities:				
Net income (loss)	\$ (155,194)	\$ 84,638	\$ (205,191)	\$ 112,547
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred and other taxes	(28,572)	53,715	(30,784)	89,475
(Gain) loss on equity investments	23,095	(2,134)	27,578	(2,701)
Depreciation and amortization	69,581	67,211	199,954	196,444
Provision for doubtful accounts	(740)	1,439	6,211	2,977
Share-based compensation expense	25,551	34,127	73,885	102,317
Excess tax benefit from share-based compensation	(360)	(4,206)	(2,037)	(15,714)
Other non-cash charges (income)	8,446	(266)	15,730	2,649
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	86,208	(127,750)	338,210	171,177
Inventory	83,023	57,352	(157,336)	(47,211)
Other assets	77,825	77,177	28,250	47,001
Accounts payable trade	4,353	33,102	(43,536)	(38,596)
Accounts payable to related parties	(2,752)	11,634	(29,007)	22,513
Other liabilities	(54,327)	52,878	(199,803)	(139,163)
Total adjustments	291,331	254,279	227,315	391,168
Net cash provided by operating activities	136,137	338,917	22,124	503,715
Cash flows from investing activities:				
Purchases of short and long-term investments	(776,290)	(1,554,027)	(1,668,510)	(3,145,884)
Proceeds from sale of short and long-term investments	560,010	1,258,874	1,288,906	1,492,256
Maturities of short and long-term investments	127,285	171,526	479,848	1,142,826
Investment in Flash Alliance Ltd.	-	(38,003)	(96,705)	(38,003)
Distribution from FlashVision Ltd.	73,543	-	102,530	-
Proceeds from sales of capital equipment	39,416	-	39,680	-
Acquisition of capital equipment	(45,184)	(82,102)	(152,360)	(179,903)
Proceeds from notes receivable from FlashVision Ltd.	-	-	-	37,512
Issuance of notes receivable from Flash Partners Ltd.	-	(286,296)	(37,418)	(409,601)
Issuance of notes receivable from Flash Alliance Ltd.	(93,110)	-	(93,110)	-
Purchased technology and other assets	1,000	(14,563)	(875)	(27,803)
Acquisition of MusicGremlin, Inc.	(76)	-	(4,604)	-
Net cash used in investing activities	(113,406)	(544,591)	(142,618)	(1,128,600)
Cash flows from financing activities:				
Proceeds (repayment) from debt financing	-	4,012	(9,785)	7,803
Proceeds from employee stock programs	10,008	43,208	19,358	97,310
Distribution to minority interest	-	-	-	(9,880)
Tax benefit from share-based compensation	360	4,206	2,037	15,714
Share repurchase programs	-	-	-	(97,417)
Net cash provided by financing activities	10,368	51,426	11,610	13,530
Effect of changes in foreign currency exchange rates on cash	(1,570)	955	(3,758)	1,575
Net increase (decrease) in cash and cash equivalents	31,529	(153,293)	(112,642)	(609,780)
Cash and cash equivalents at beginning of period	689,578	1,124,213	833,749	1,580,700
Cash and cash equivalents at end of period	\$ 721,107	\$ 970,920	\$ 721,107	\$ 970,920