

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

	Three months ended		Nine months ended	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
Revenues:				
Product	\$ 1,137,593	\$ 813,811	\$ 3,222,103	\$ 2,012,342
License and royalty	96,080	121,360	277,301	312,873
Total revenues	<u>1,233,673</u>	<u>935,171</u>	<u>3,499,404</u>	<u>2,325,215</u>
Cost of product revenues	591,296	495,769	1,804,203	1,631,691
Amortization of acquisition-related intangible assets	3,132	3,132	9,396	9,396
Total cost of product revenues	<u>594,428</u>	<u>498,901</u>	<u>1,813,599</u>	<u>1,641,087</u>
Gross profit	639,245	436,270	1,685,805	684,128
Operating expenses:				
Research and development	111,518	94,925	309,970	273,080
Sales and marketing	50,390	55,750	150,985	144,037
General and administrative	44,524	45,350	118,647	122,311
Amortization of acquisition-related intangible assets	1,089	292	1,672	875
Restructuring and other	—	—	—	765
Total operating expenses	<u>207,521</u>	<u>196,317</u>	<u>581,274</u>	<u>541,068</u>
Operating income	431,724	239,953	1,104,531	143,060
Other income (expense)	<u>(3,168)</u>	<u>(2,538)</u>	<u>5,794</u>	<u>(16,515)</u>
Income before provision for income taxes	428,556	237,415	1,110,325	126,545
Provision for income taxes	<u>106,464</u>	<u>6,122</u>	<u>295,648</u>	<u>50,740</u>
Net income	<u>\$ 322,092</u>	<u>\$ 231,293</u>	<u>\$ 814,677</u>	<u>\$ 75,805</u>
Net income per share:				
Basic	\$ 1.38	\$ 1.02	\$ 3.52	\$ 0.33
Diluted	\$ 1.34	\$ 0.99	\$ 3.41	\$ 0.33
Shares used in computing net income per share:				
Basic	233,918	227,771	231,631	227,092
Diluted	240,717	232,724	239,249	230,936

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	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME	\$ 322,092	\$ 231,293	\$ 814,677	\$ 75,805
Share-based compensation (a)	20,944	19,374	52,791	58,058
Amortization of acquisition-related intangible assets (b)	4,221	3,424	11,068	10,271
Convertible debt interest (c)	17,983	13,410	46,112	39,495
Income tax adjustments (d)	(54,387)	(91,990)	(130,953)	(33,633)
NON-GAAP NET INCOME	<u>\$ 310,853</u>	<u>\$ 175,511</u>	<u>\$ 793,695</u>	<u>\$ 149,996</u>
GAAP COST OF PRODUCT REVENUES	\$ 594,428	\$ 498,901	\$ 1,813,599	\$ 1,641,087
Share-based compensation (a)	(1,205)	(2,347)	(4,972)	(7,167)
Amortization of acquisition-related intangible assets (b)	(3,132)	(3,132)	(9,396)	(9,396)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 590,091</u>	<u>\$ 493,422</u>	<u>\$ 1,799,231</u>	<u>\$ 1,624,524</u>
GAAP GROSS PROFIT	\$ 639,245	\$ 436,270	\$ 1,685,805	\$ 684,128
Share-based compensation (a)	1,205	2,347	4,972	7,167
Amortization of acquisition-related intangible assets (b)	3,132	3,132	9,396	9,396
NON-GAAP GROSS PROFIT	<u>\$ 643,582</u>	<u>\$ 441,749</u>	<u>\$ 1,700,173</u>	<u>\$ 700,691</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 111,518	\$ 94,925	\$ 309,970	\$ 273,080
Share-based compensation (a)	(6,629)	(7,137)	(19,975)	(22,341)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 104,889</u>	<u>\$ 87,788</u>	<u>\$ 289,995</u>	<u>\$ 250,739</u>
GAAP SALES AND MARKETING EXPENSES	\$ 50,390	\$ 55,750	\$ 150,985	\$ 144,037
Share-based compensation (a)	(2,959)	(3,918)	(8,300)	(11,153)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 47,431</u>	<u>\$ 51,832</u>	<u>\$ 142,685</u>	<u>\$ 132,884</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 44,524	\$ 45,350	\$ 118,647	\$ 122,311
Share-based compensation (a)	(10,151)	(5,972)	(19,544)	(17,397)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 34,373</u>	<u>\$ 39,378</u>	<u>\$ 99,103</u>	<u>\$ 104,914</u>
GAAP TOTAL OPERATING EXPENSES	\$ 207,521	\$ 196,317	\$ 581,274	\$ 541,068
Share-based compensation (a)	(19,739)	(17,027)	(47,819)	(50,891)
Amortization of acquisition-related intangible assets (b)	(1,089)	(292)	(1,672)	(875)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 186,693</u>	<u>\$ 178,998</u>	<u>\$ 531,783</u>	<u>\$ 489,302</u>
GAAP OPERATING INCOME	\$ 431,724	\$ 239,953	\$ 1,104,531	\$ 143,060
Cost of product revenues adjustments (a) (b)	4,337	5,479	14,368	16,563
Operating expense adjustments (a) (b)	20,828	17,319	49,491	51,766
NON-GAAP OPERATING INCOME	<u>\$ 456,889</u>	<u>\$ 262,751</u>	<u>\$ 1,168,390</u>	<u>\$ 211,389</u>
GAAP OTHER INCOME (EXPENSE)	\$ (3,168)	\$ (2,538)	\$ 5,794	\$ (16,515)
Convertible debt interest (c)	17,983	13,410	46,112	39,495
NON-GAAP OTHER INCOME (EXPENSE)	<u>\$ 14,815</u>	<u>\$ 10,872</u>	<u>\$ 51,906</u>	<u>\$ 22,980</u>
GAAP NET INCOME	\$ 322,092	\$ 231,293	\$ 814,677	\$ 75,805
Cost of product revenues adjustments (a) (b)	4,337	5,479	14,368	16,563
Operating expense adjustments (a) (b)	20,828	17,319	49,491	51,766
Convertible debt interest (c)	17,983	13,410	46,112	39,495
Income tax adjustments (d)	(54,387)	(91,990)	(130,953)	(33,633)
NON-GAAP NET INCOME	<u>\$ 310,853</u>	<u>\$ 175,511</u>	<u>\$ 793,695</u>	<u>\$ 149,996</u>
Diluted net income per share:				
GAAP	\$ 1.34	\$ 0.99	\$ 3.41	\$ 0.33
Non-GAAP	\$ 1.30	\$ 0.75	\$ 3.33	\$ 0.65
Shares used in computing diluted net income per share:				
GAAP	240,717	232,724	239,249	230,936
Non-GAAP	239,798	232,961	238,302	231,424

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 and net income 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 and MusicGremlin, Inc. in June 2008, and non-cash economic interest expense associated with our cash-settled convertible notes, 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 notes, 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) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisitions of Matrix Semiconductor, Inc. (January 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 1% Sr. Convertible Notes due 2013 and 1.5% Sr. Convertible Notes due 2017.
- (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)

	October 3, 2010	January 3, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 865,388	\$ 1,100,364
Short-term marketable securities	2,038,430	819,002
Accounts receivable from product revenues, net	339,806	234,407
Inventory	526,861	596,493
Deferred taxes	94,204	66,869
Other current assets	63,406	97,639
Total current assets	3,928,095	2,914,774
Long-term marketable securities	2,147,227	1,097,095
Property and equipment, net	248,995	300,997
Notes receivable and investments in the flash ventures with Toshiba	1,619,551	1,507,550
Deferred taxes	76,400	21,210
Intangible assets, net	41,690	58,076
Other non-current assets	54,180	102,017
Total assets	\$ 8,116,138	\$ 6,001,719
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 151,677	\$ 134,427
Accounts payable to related parties	163,907	182,091
Convertible short-term debt	—	75,000
Other current accrued liabilities	332,713	234,079
Deferred income on shipments to distributors and retailers and deferred revenue	253,480	245,513
Total current liabilities	901,777	871,110
Convertible long-term debt	1,687,752	934,722
Non-current liabilities	344,334	287,478
Total liabilities	2,933,863	2,093,310
EQUITY		
Stockholders' equity:		
Common stock	4,630,513	4,269,074
Retained earnings (accumulated deficit)	327,188	(487,489)
Accumulated other comprehensive income	227,732	128,713
Total stockholders' equity	5,185,433	3,910,298
Non-controlling interests	(3,158)	(1,889)
Total equity	5,182,275	3,908,409
Total liabilities and equity	\$ 8,116,138	\$ 6,001,719

Preliminary Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three months ended		Nine months ended	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
Cash flows from operating activities:				
Net income	\$ 322,092	\$ 231,293	\$ 814,677	\$ 75,805
Adjustments to reconcile net income to net cash flows from operating activities:				
Deferred taxes	(16,940)	218	(95,849)	2,521
Depreciation	32,970	37,943	102,075	114,595
Amortization	24,761	19,576	65,349	56,686
Provision for doubtful accounts	(205)	2,454	(2,804)	1,675
Share-based compensation expense	20,944	19,374	52,791	58,058
Excess tax benefit from share-based compensation	(6,232)	—	(19,960)	—
Impairments, restructuring and other	(11,349)	(1,432)	(27,587)	5,701
Other non-operating	6,769	1,950	25,708	983
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	5,663	(131,300)	(104,272)	(159,260)
Inventory	(33,256)	(98,699)	66,974	(37,151)
Other assets	(21,928)	68,467	1,649	339,275
Accounts payable trade	36,431	7,061	17,359	(117,625)
Accounts payable to related parties	(33,137)	45,994	(18,184)	(77,269)
Other liabilities	52,567	35,473	214,569	(164,170)
Total adjustments	57,058	7,079	277,818	24,019
Net cash provided by operating activities	379,150	238,372	1,092,495	99,824
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(2,788,994)	(701,768)	(4,231,953)	(1,237,877)
Proceeds from sale of short and long-term marketable securities	944,838	285,088	1,636,549	857,718
Proceeds from maturities of short and long-term marketable securities	148,790	55,477	317,805	143,117
Proceeds from sale of assets	—	—	17,767	—
Acquisition of property and equipment	(22,314)	(10,687)	(59,728)	(43,354)
Distribution from FlashVision Ltd.	—	—	122	12,713
Notes receivable issuance, Flash Partners Ltd. and Flash Alliance Ltd.	—	—	—	(377,923)
Notes receivable proceeds, Flash Partners Ltd. and Flash Alliance Ltd.	59,664	—	59,664	330,149
Purchased technology and other assets	—	(7,500)	(1,982)	(10,653)
Net cash used in investing activities	(1,658,016)	(379,390)	(2,261,756)	(326,110)
Cash flows from financing activities:				
Proceeds from issuance of convertible senior notes, net of issuance costs	982,500	—	982,500	—
Purchase of convertible bond hedge	(292,900)	—	(292,900)	—
Proceeds from issuance of warrants	188,100	—	188,100	—
Repayment of debt financing	—	—	(75,000)	—
Proceeds from employee stock programs	23,615	7,723	107,971	13,998
Excess tax benefit from share-based compensation	6,232	—	19,960	—
Net cash provided by financing activities	907,547	7,723	930,631	13,998
Effect of changes in foreign currency exchange rates on cash	(304)	1,251	3,654	2,710
Net decrease in cash and cash equivalents	(371,623)	(132,044)	(234,976)	(209,578)
Cash and cash equivalents at beginning of period	1,237,011	884,527	1,100,364	962,061
Cash and cash equivalents at end of period	\$ 865,388	\$ 752,483	\$ 865,388	\$ 752,483