

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>July 3, 2011</u>	<u>July 4, 2010</u>	<u>July 3, 2011</u>	<u>July 4, 2010</u>
Revenues:				
Product	\$ 1,281,960	\$ 1,091,315	\$ 2,492,207	\$ 2,084,510
License and royalty	93,033	87,753	176,986	181,221
Total revenues	<u>1,374,993</u>	<u>1,179,068</u>	<u>2,669,193</u>	<u>2,265,731</u>
Cost of product revenues	753,307	629,554	1,490,799	1,212,907
Amortization of acquisition-related intangible assets	8,254	3,132	13,370	6,264
Total cost of product revenues	<u>761,561</u>	<u>632,686</u>	<u>1,504,169</u>	<u>1,219,171</u>
Gross profit	613,432	546,382	1,165,024	1,046,560
Operating expenses:				
Research and development	145,332	99,799	264,874	198,452
Sales and marketing	48,200	52,094	95,657	100,595
General and administrative	40,154	35,399	75,453	74,123
Amortization of acquisition-related intangible assets	730	291	730	583
Total operating expenses	<u>234,416</u>	<u>187,583</u>	<u>436,714</u>	<u>373,753</u>
Operating income	379,016	358,799	728,310	672,807
Other income (expense)	(14,273)	(24)	(32,639)	8,962
Income before income taxes	364,743	358,775	695,671	681,769
Provision for income taxes	116,353	100,881	223,157	189,184
Net income	<u>\$ 248,390</u>	<u>\$ 257,894</u>	<u>\$ 472,514</u>	<u>\$ 492,585</u>
Net income per share:				
Basic	\$ 1.04	\$ 1.11	\$ 1.98	\$ 2.14
Diluted	\$ 1.02	\$ 1.08	\$ 1.94	\$ 2.07
Shares used in computing net income per share:				
Basic	238,851	231,673	238,162	230,487
Diluted	243,862	239,801	243,718	238,566

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

	Three months ended		Six months ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME	\$ 248,390	\$ 257,894	\$ 472,514	\$ 492,585
Share-based compensation (a)	14,358	14,977	28,949	31,847
Amortization of acquisition-related intangible assets (b)	8,984	3,423	14,100	6,847
Convertible debt interest (c)	23,833	14,208	47,198	28,129
Income tax adjustments (d)	(17,520)	(32,702)	(34,136)	(76,566)
NON-GAAP NET INCOME	<u>\$ 278,045</u>	<u>\$ 257,800</u>	<u>\$ 528,625</u>	<u>\$ 482,842</u>
GAAP COST OF PRODUCT REVENUES	\$ 761,561	\$ 632,686	\$ 1,504,169	\$ 1,219,171
Share-based compensation (a)	(1,089)	(1,309)	(2,032)	(3,767)
Amortization of acquisition-related intangible assets (b)	(8,254)	(3,132)	(13,370)	(6,264)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 752,218</u>	<u>\$ 628,245</u>	<u>\$ 1,488,767</u>	<u>\$ 1,209,140</u>
GAAP GROSS PROFIT	\$ 613,432	\$ 546,382	\$ 1,165,024	\$ 1,046,560
Share-based compensation (a)	1,089	1,309	2,032	3,767
Amortization of acquisition-related intangible assets (b)	8,254	3,132	13,370	6,264
NON-GAAP GROSS PROFIT	<u>\$ 622,775</u>	<u>\$ 550,823</u>	<u>\$ 1,180,426</u>	<u>\$ 1,056,591</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 145,332	\$ 99,799	\$ 264,874	\$ 198,452
Share-based compensation (a)	(7,684)	(6,544)	(14,928)	(13,346)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 137,648</u>	<u>\$ 93,255</u>	<u>\$ 249,946</u>	<u>\$ 185,106</u>
GAAP SALES AND MARKETING EXPENSES	\$ 48,200	\$ 52,094	\$ 95,657	\$ 100,595
Share-based compensation (a)	(2,868)	(3,153)	(5,042)	(5,341)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 45,332</u>	<u>\$ 48,941</u>	<u>\$ 90,615</u>	<u>\$ 95,254</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 40,154	\$ 35,399	\$ 75,453	\$ 74,123
Share-based compensation (a)	(2,717)	(3,971)	(6,947)	(9,393)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 37,437</u>	<u>\$ 31,428</u>	<u>\$ 68,506</u>	<u>\$ 64,730</u>
GAAP TOTAL OPERATING EXPENSES	\$ 234,416	\$ 187,583	\$ 436,714	\$ 373,753
Share-based compensation (a)	(13,269)	(13,668)	(26,917)	(28,080)
Amortization of acquisition-related intangible assets (b)	(730)	(291)	(730)	(583)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 220,417</u>	<u>\$ 173,624</u>	<u>\$ 409,067</u>	<u>\$ 345,090</u>
GAAP OPERATING INCOME	\$ 379,016	\$ 358,799	\$ 728,310	\$ 672,807
Cost of product revenues adjustments (a) (b)	9,343	4,441	15,402	10,031
Operating expense adjustments (a) (b)	13,999	13,959	27,647	28,663
NON-GAAP OPERATING INCOME	<u>\$ 402,358</u>	<u>\$ 377,199</u>	<u>\$ 771,359</u>	<u>\$ 711,501</u>
GAAP OTHER INCOME (EXPENSE)	\$ (14,273)	\$ (24)	\$ (32,639)	\$ 8,962
Convertible debt interest (c)	23,833	14,208	47,198	28,129
NON-GAAP OTHER INCOME (EXPENSE)	<u>\$ 9,560</u>	<u>\$ 14,184</u>	<u>\$ 14,559</u>	<u>\$ 37,091</u>
GAAP NET INCOME	\$ 248,390	\$ 257,894	\$ 472,514	\$ 492,585
Cost of product revenues adjustments (a) (b)	9,343	4,441	15,402	10,031
Operating expense adjustments (a) (b)	13,999	13,959	27,647	28,663
Convertible debt interest (c)	23,833	14,208	47,198	28,129
Income tax adjustments (d)	(17,520)	(32,702)	(34,136)	(76,566)
NON-GAAP NET INCOME	<u>\$ 278,045</u>	<u>\$ 257,800</u>	<u>\$ 528,625</u>	<u>\$ 482,842</u>
Diluted net income per share:				
GAAP	\$ 1.02	\$ 1.08	\$ 1.94	\$ 2.07
Non-GAAP	\$ 1.14	\$ 1.08	\$ 2.17	\$ 2.03
Shares used in computing diluted net income per share:				
GAAP	243,862	239,801	243,718	238,566
Non-GAAP	243,889	238,807	243,727	237,652

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, MusicGremlin, Inc. in June 2008 and Pliant Technology, Inc. in May 2011, non-cash economic interest expense associated with our convertible debt and tax valuation allowances, 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, non-cash economic interest expense associated with our convertible debt and tax valuation allowances, 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 technology, developed technology, customer relationships and trademarks related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), MusicGremlin, Inc. (June 2008) and Pliant Technology, Inc. (May 2011).
 - (c) Incremental interest expense relating to the non-cash economic interest expense associated with the Company's 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 valuation allowances on deferred taxes.

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

	July 3, 2011	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 974,854	\$ 829,149
Short-term marketable securities	1,719,354	2,018,565
Accounts receivable from product revenues, net	377,102	367,784
Inventory	553,753	509,585
Deferred taxes	138,460	104,582
Other current assets	143,956	203,027
Total current assets	3,907,479	4,032,692
Long-term marketable securities	2,584,332	2,494,972
Property and equipment, net	271,166	266,721
Notes receivable and investments in the flash ventures with Toshiba	2,062,429	1,733,491
Deferred taxes	85,934	149,486
Goodwill	154,899	—
Intangible assets, net	330,127	37,404
Other non-current assets	91,441	61,944
Total assets	\$ 9,487,807	\$ 8,776,710
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 181,377	\$ 173,259
Accounts payable to related parties	275,611	241,744
Other current accrued liabilities	315,560	284,709
Deferred income on shipments to distributors and retailers and deferred revenue	254,152	260,395
Total current liabilities	1,026,700	960,107
Convertible long-term debt	1,759,217	1,711,032
Non-current liabilities	341,576	326,176
Total liabilities	3,127,493	2,997,315
EQUITY		
Stockholders' equity:		
Common stock	4,808,640	4,709,743
Retained earnings	1,285,167	812,653
Accumulated other comprehensive income	269,927	260,228
Total stockholders' equity	6,363,734	5,782,624
Non-controlling interests	(3,420)	(3,229)
Total equity	6,360,314	5,779,395
Total liabilities and equity	\$ 9,487,807	\$ 8,776,710

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

	Three months ended		Six months ended	
	July 3, 2011	July 4, 2010	July 3, 2011 ⁽¹⁾	July 4, 2010
Cash flows from operating activities:				
Net income	\$ 248,390	\$ 257,894	\$ 472,514	\$ 492,585
Adjustments to reconcile net income to net cash flows from operating activities:				
Deferred taxes	(13,398)	(18,287)	(7,224)	(78,909)
Depreciation	27,862	34,040	57,637	69,105
Amortization	40,511	20,437	73,350	40,588
Provision for doubtful accounts	(209)	(977)	(2,954)	(2,599)
Share-based compensation expense	14,358	14,977	28,949	31,847
Excess tax benefit from share-based compensation	(5,399)	(11,561)	(11,811)	(13,728)
Impairments, restructuring and other	(6,268)	4,085	(19,445)	(16,238)
Other non-operating	21,235	9,674	41,683	18,939
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(132,051)	(109,829)	(587)	(109,935)
Inventory	(50,380)	73,742	(34,001)	100,230
Other assets	(47,620)	2,292	(71,369)	23,577
Accounts payable trade	32,852	19,836	(3,457)	(19,072)
Accounts payable to related parties	64,363	53,996	33,867	14,953
Other liabilities	75,000	34,747	110,733	162,002
Total adjustments	20,856	127,172	195,371	220,760
Net cash provided by operating activities	269,246	385,066	667,885	713,345
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(972,067)	(831,546)	(1,609,568)	(1,442,959)
Proceeds from sale of short and long-term marketable securities	974,177	474,434	1,471,780	691,711
Proceeds from maturities of short and long-term marketable securities	206,570	125,295	323,810	169,015
Acquisition of property and equipment	(27,608)	(22,486)	(61,353)	(37,414)
Investment in Flash Forward Ltd.	(18,272)	—	(18,333)	—
Distribution from FlashVision Ltd.	—	—	—	122
Notes receivable issuance, Flash Partners Ltd. and Flash Alliance Ltd.	(152,811)	—	(366,762)	—
Notes receivable proceeds, Flash Partners Ltd. and Flash Alliance Ltd.	—	—	85,096	—
Proceeds from sale of assets	—	—	—	17,767
Purchased technology and other assets	—	—	(100,000)	(1,982)
Acquisition of Pliant Technology, Inc., net of cash acquired	(302,649)	—	(317,649)	—
Net cash used in investing activities	(292,660)	(254,303)	(592,979)	(603,740)
Cash flows from financing activities:				
Repayment of debt financing	—	—	—	(75,000)
Proceeds from employee stock programs	16,458	66,401	58,606	84,356
Excess tax benefit from share-based compensation	5,399	11,561	11,811	13,728
Net cash provided by financing activities	21,857	77,962	70,417	23,084
Effect of changes in foreign currency exchange rates on cash	1,961	5,775	382	3,958
Net increase in cash and cash equivalents	404	214,500	145,705	136,647
Cash and cash equivalents at beginning of period	974,450	1,022,511	829,149	1,100,364
Cash and cash equivalents at end of period	\$ 974,854	\$ 1,237,011	\$ 974,854	\$ 1,237,011

⁽¹⁾ \$15 million of cash used during the first quarter of fiscal year 2011 for the Pliant acquisition has been reclassified from 'Purchased technology and other assets' to 'Acquisition of Pliant Technology, Inc., net of cash acquired.'