

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

	Three months ended		Twelve months ended	
	December 30, 2007	December 31, 2006	December 30, 2007	December 31, 2006
Revenues:				
Product	\$ 1,117,967	\$ 1,078,880	\$ 3,446,125	\$ 2,926,472
License and royalty	127,858	84,815	450,241	331,053
Total revenues	<u>1,245,825</u>	<u>1,163,695</u>	<u>3,896,366</u>	<u>3,257,525</u>
Cost of product revenues	789,493	737,295	2,628,838	2,007,684
Amortization of acquisition-related intangible assets	14,582	10,368	64,809	10,368
Total cost of product revenues	<u>804,075</u>	<u>747,663</u>	<u>2,693,647</u>	<u>2,018,052</u>
Gross profit	<u>441,750</u>	<u>416,032</u>	<u>1,202,719</u>	<u>1,239,473</u>
Operating expenses:				
Research and development	110,708	91,246	418,066	306,866
Sales and marketing	105,416	70,003	294,594	203,406
General and administrative	47,772	52,390	181,509	159,835
Restructuring	-	-	6,728	-
Write-off of acquired in-process technology	-	186,000	-	225,600
Amortization of acquisition-related intangible assets	4,558	4,853	25,308	17,432
Total operating expenses	<u>268,454</u>	<u>404,492</u>	<u>926,205</u>	<u>913,139</u>
Operating income	173,296	11,540	276,514	326,334
Total other income	<u>17,887</u>	<u>31,674</u>	<u>121,902</u>	<u>104,374</u>
Income before taxes	191,183	43,214	398,416	430,708
Provision for income taxes	<u>85,373</u>	<u>76,736</u>	<u>174,848</u>	<u>230,193</u>
Income (loss) after taxes	105,810	(33,522)	223,568	200,515
Minority interest	-	1,619	5,211	1,619
Net income (loss)	<u>\$ 105,810</u>	<u>\$ (35,141)</u>	<u>\$ 218,357</u>	<u>\$ 198,896</u>
Net income (loss) per share calculation:				
Net income (loss) used in computing basic net income (loss) per share	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Tax-effected interest costs related to convertible long term debt	117	-	469	58
Net income (loss) used in computing diluted net income (loss) per share	<u>\$ 105,927</u>	<u>\$ (35,141)</u>	<u>\$ 218,826</u>	<u>\$ 198,954</u>
Net income (loss) per share:				
Basic	\$ 0.47	\$ (0.17)	\$ 0.96	\$ 1.00
Diluted	\$ 0.45	\$ (0.17)	\$ 0.93	\$ 0.96
Shares used in computing net income (loss) per share:				
Basic	226,871	210,849	227,744	198,929
Diluted	234,033	210,849	235,857	207,451

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

	Three months ended		Twelve months ended	
	December 30, 2007	December 31, 2006	December 30, 2007	December 31, 2006
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME (LOSS)	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Adjustments:				
Share-based compensation (a)	30,693	30,793	133,010	100,641
Amortization of acquisition-related intangible assets (c)	19,140	15,221	90,117	27,800
Inventory step-up expense related to msystems acquisition (d)	-	4,471	7,066	4,471
Write-off of acquired in-process technology (b)	-	186,000	-	225,600
Income tax adjustments (e)	5,985	(9,673)	(40,441)	(34,548)
NON-GAAP NET INCOME	<u>\$ 161,628</u>	<u>\$ 191,671</u>	<u>\$ 408,109</u>	<u>\$ 522,860</u>
GAAP COST OF PRODUCT REVENUES				
	\$ 804,075	\$ 747,663	\$ 2,693,647	\$ 2,018,052
Share-based compensation (a)	(4,060)	(2,892)	(14,743)	(7,991)
Amortization of acquisition-related intangible assets (c)	(14,582)	(10,368)	(64,809)	(10,368)
Inventory step-up expense related to msystems acquisition (d)	-	(4,471)	(7,066)	(4,471)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 785,433</u>	<u>\$ 729,932</u>	<u>\$ 2,607,029</u>	<u>\$ 1,995,222</u>
GAAP GROSS PROFIT				
	\$ 441,750	\$ 416,032	\$ 1,202,719	\$ 1,239,473
Share-based compensation (a)	4,060	2,892	14,743	7,991
Amortization of acquisition-related intangible assets (c)	14,582	10,368	64,809	10,368
Inventory step-up expense related to msystems acquisition (d)	-	4,471	7,066	4,471
NON-GAAP GROSS PROFIT	<u>\$ 460,392</u>	<u>\$ 433,763</u>	<u>\$ 1,289,337</u>	<u>\$ 1,262,303</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
	\$ 110,708	\$ 91,246	\$ 418,066	\$ 306,866
Share-based compensation (a)	(10,965)	(11,522)	(49,193)	(40,999)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 99,743</u>	<u>\$ 79,724</u>	<u>\$ 368,873</u>	<u>\$ 265,867</u>
GAAP SALES AND MARKETING EXPENSES				
	\$ 105,416	\$ 70,003	\$ 294,594	\$ 203,406
Share-based compensation (a)	(6,482)	(7,831)	(31,722)	(21,617)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 98,934</u>	<u>\$ 62,172</u>	<u>\$ 262,872</u>	<u>\$ 181,789</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
	\$ 47,772	\$ 52,390	\$ 181,509	\$ 159,835
Share-based compensation (a)	(9,186)	(8,548)	(37,352)	(30,034)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 38,586</u>	<u>\$ 43,842</u>	<u>\$ 144,157</u>	<u>\$ 129,801</u>
GAAP TOTAL OPERATING EXPENSES				
	\$ 268,454	\$ 404,492	\$ 926,205	\$ 913,139
Share-based compensation (a)	(26,633)	(27,901)	(118,267)	(92,650)
Write-off of acquired in-process technology (b)	-	(186,000)	-	(225,600)
Amortization of acquisition-related intangible assets (c)	(4,558)	(4,853)	(25,308)	(17,432)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 237,263</u>	<u>\$ 185,738</u>	<u>\$ 782,630</u>	<u>\$ 577,457</u>
GAAP OPERATING INCOME				
	\$ 173,296	\$ 11,540	\$ 276,514	\$ 326,334
Cost of product revenues adjustments (a) (c) (d)	18,642	17,731	86,618	22,830
Operating expense adjustments (a) (b) (c)	31,191	218,754	143,575	335,682
NON-GAAP OPERATING INCOME	<u>\$ 223,129</u>	<u>\$ 248,025</u>	<u>\$ 506,707</u>	<u>\$ 684,846</u>
GAAP NET INCOME (LOSS)				
	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Cost of product revenues adjustments (a) (c) (d)	18,642	17,731	86,618	22,830
Operating expense adjustments (a) (b) (c)	31,191	218,754	143,575	335,682
Income tax adjustments (e)	5,985	(9,673)	(40,441)	(34,548)
NON-GAAP NET INCOME	<u>\$ 161,628</u>	<u>\$ 191,671</u>	<u>\$ 408,109</u>	<u>\$ 522,860</u>
Net income per share calculation: Non-GAAP				
Net income used in computing basic Non-GAAP net income per share	\$ 161,628	\$ 191,671	\$ 408,109	\$ 522,860
Tax-effected interest costs related to convertible long term debt	117	58	469	58
Net income used in computing diluted Non-GAAP net income per share	<u>\$ 161,745</u>	<u>\$ 191,729</u>	<u>\$ 408,578</u>	<u>\$ 522,918</u>
Diluted net income (loss) per share:				
GAAP	\$ 0.45	\$ (0.17)	\$ 0.93	\$ 0.96
Non-GAAP	\$ 0.69	\$ 0.87	\$ 1.73	\$ 2.51
Shares used in computing diluted net income (loss) per share:				
GAAP	234,033	210,849	235,857	207,451
Non-GAAP	234,154	220,090	236,614	208,661

SanDisk Corporation
Reconciliation of 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 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) Write-off of acquired in-process technology associated with the Matrix acquisition (January 2006) and msystems acquisition (November 2006).
- (c) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisition of Matrix and msystems.
- (d) Inventory step-up expense related to msystems acquisition.
- (e) Income taxes associated with certain non-GAAP adjustments.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(in thousands)

	December 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 833,749	\$ 1,580,700
Short-term investments	1,001,641	1,251,493
Accounts receivable from product revenues, net	462,983	611,740
Inventory	555,077	495,984
Deferred taxes	212,255	176,007
Other current assets	233,952	125,937
Total current assets	3,299,657	4,241,861
Long-term investments	1,060,393	457,184
Property and equipment, net	422,895	317,965
Notes receivable and investments in flash ventures	1,108,905	462,307
Deferred taxes	117,130	102,100
Goodwill	840,870	910,254
Intangibles, net	322,023	389,078
Other non-current assets	62,946	87,034
Total Assets	\$ 7,234,819	\$ 6,967,783
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 285,711	\$ 261,870
Accounts payable to related parties	158,443	139,627
Other current accrued liabilities	286,850	311,000
Deferred income on shipments to distributors and retailers and deferred revenue	182,879	183,950
Total current liabilities	913,883	896,447
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities and deferred revenue	135,252	72,226
Total liabilities	2,274,135	2,193,673
Minority interest	1,067	5,976
Stockholders' Equity:		
Common stock	3,797,073	3,657,121
Retained earnings	1,130,069	1,105,520
Accumulated other comprehensive income	32,475	5,493
Total stockholders' equity	4,959,617	4,768,134
Total Liabilities and Stockholders' Equity	\$ 7,234,819	\$ 6,967,783

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

	Three months ended		Twelve months ended	
	December 30, 2007	December 31, 2006	December 30, 2007	December 31, 2006
Cash flows from operating activities:				
Net income (loss)	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred and other taxes	(26,171)	(1,615)	(35,188)	(25,636)
(Gain) loss on equity investments	10,545	(1,116)	7,844	(2,480)
Depreciation and amortization	63,707	45,876	260,151	135,585
Provision for doubtful accounts	553	556	3,530	3,316
Share-based compensation expense	30,693	30,793	133,010	100,641
Excess tax benefit from share-based compensation	(2,661)	6,687	(18,375)	(57,393)
Write-off of acquired in-process technology	-	186,000	-	225,600
Other non-cash charges (income)	2,228	(3,514)	4,877	(313)
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(25,520)	(143,337)	145,657	(115,061)
Inventory	(10,375)	34,105	(57,586)	(23,660)
Other assets	(81,790)	(59,202)	(34,789)	(12,094)
Accounts payable trade	62,368	24,135	23,772	(64,228)
Accounts payable to related parties	(1,547)	(3,763)	20,966	24,617
Other liabilities	21,369	114,436	(19,299)	210,273
Total adjustments	<u>43,399</u>	<u>230,041</u>	<u>434,570</u>	<u>399,167</u>
Net cash provided by operating activities	<u>149,209</u>	<u>194,900</u>	<u>652,927</u>	<u>598,063</u>
Cash flows from investing activities:				
Purchases of short and long-term investments	(572,012)	(697,778)	(3,717,897)	(2,135,973)
Proceeds from sale and maturities of short and long-term investments	764,501	615,348	3,399,583	1,497,120
Investment in Flash Partners and Flash Alliance	(87,544)	-	(125,547)	(132,209)
Acquisition of property and equipment, net	(79,051)	(53,031)	(258,954)	(176,474)
Proceeds from notes receivable from FlashVision	-	15,014	37,512	23,538
Issuance of notes receivable to Flash Partners	(115,651)	-	(525,252)	(95,445)
Purchased technology and other assets	-	-	(27,803)	-
Cash acquired in business combination, net of acquisition costs	-	31,950	-	41,382
Net cash used in investing activities	<u>(89,757)</u>	<u>(88,497)</u>	<u>(1,218,358)</u>	<u>(978,061)</u>
Cash flows from financing activities:				
Proceeds from issuance of convertible senior notes, net of issuance costs	-	-	-	1,125,500
Purchase of convertible bond hedge	-	-	-	(386,090)
Proceeds from issuance of warrants	-	-	-	308,672
Proceeds from debt financing	2,000	-	9,803	-
Proceeds from employee stock programs	3,001	10,196	100,311	96,304
Distribution to minority interest	-	(4,491)	(9,880)	(4,491)
Excess tax benefit from share-based compensation	2,661	(6,687)	18,375	57,393
Share repurchase programs	(202,190)	-	(299,607)	-
Net cash provided by (used in) financing activities	<u>(194,528)</u>	<u>(982)</u>	<u>(180,998)</u>	<u>1,197,288</u>
Effect of changes in foreign currency exchange rates on cash	<u>(2,097)</u>	<u>1,124</u>	<u>(522)</u>	<u>1,352</u>
Net increase (decrease) in cash and cash equivalents	<u>(137,173)</u>	<u>106,545</u>	<u>(746,951)</u>	<u>818,642</u>
Cash and cash equivalents at beginning of period	<u>970,922</u>	<u>1,474,155</u>	<u>1,580,700</u>	<u>762,058</u>
Cash and cash equivalents at end of period	<u>\$ 833,749</u>	<u>\$ 1,580,700</u>	<u>\$ 833,749</u>	<u>\$ 1,580,700</u>