

SanDisk Corporation  
Condensed Consolidated Statements of Operations  
(In thousands, except per share data, unaudited)

	Three months ended	
	April 1, 2007	April 2, 2006
Revenues:		
Product	\$ 689,357	\$ 537,728
License and royalty	96,729	85,532
Total revenues	<u>786,086</u>	<u>623,260</u>
Cost of product revenues	570,088	384,867
Amortization of acquisition-related intangible assets	21,062	-
Total cost of revenues	<u>591,150</u>	<u>384,867</u>
Gross profits	<u>194,936</u>	<u>238,393</u>
Operating expenses:		
Research and development	95,640	63,762
Sales and marketing	56,206	43,375
General and administrative	46,991	30,016
Restructuring	6,516	-
Write-off of acquired in-process technology	-	39,600
Amortization of acquisition-related intangible assets	9,100	3,715
Total operating expenses	<u>214,453</u>	<u>180,468</u>
Operating income (loss)	<u>(19,517)</u>	<u>57,925</u>
Total other income	<u>36,259</u>	<u>18,464</u>
Income before taxes	<u>16,742</u>	<u>76,389</u>
Provision for income taxes	<u>12,157</u>	<u>41,274</u>
Income after taxes	<u>4,585</u>	<u>35,115</u>
Minority interest	5,160	-
Net income (loss)	<u>\$ (575)</u>	<u>\$ 35,115</u>
Net income (loss) per share:		
Basic	\$ (0.00)	\$ 0.18
Diluted	\$ (0.00)	\$ 0.17
Shares used in computing net income (loss) per share:		
Basic	227,455	193,077
Diluted	227,455	201,892

SanDisk Corporation  
Reconciliation of GAAP to Non-GAAP Operating Results (\*):

	Three months ended	
	April 1, 2007	April 2, 2006
<b>SUMMARY RECONCILIATION OF NET INCOME</b>		
<b>GAAP NET INCOME (LOSS)</b>	\$ (575)	\$ 35,115
Adjustments:		
Share-based compensation (a)	31,219	18,786
Amortization of acquisition-related intangible assets (c)	30,162	3,715
Inventory step-up expense related to msystems acquisition (d)	4,947	-
Write-off of acquired in-process technology (b)	-	39,600
Income tax adjustments (e)	(20,918)	(7,198)
<b>NON-GAAP NET INCOME</b>	<u>\$ 44,835</u>	<u>\$ 90,018</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 591,150	\$ 384,867
Share-based compensation (a)	(3,214)	-
Amortization of acquisition-related intangible assets (c)	(21,062)	-
Inventory step-up expense related to msystems acquisition (d)	(4,947)	-
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 561,927</u>	<u>\$ 384,867</u>
<b>GAAP GROSS PROFIT</b>	\$ 194,936	\$ 238,393
Share-based compensation (a)	3,214	-
Amortization of acquisition-related intangible assets (c)	21,062	-
Inventory step-up expense related to msystems acquisition (d)	4,947	-
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 224,159</u>	<u>\$ 238,393</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 95,640	\$ 63,762
Share-based compensation (a)	(12,687)	(8,786)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 82,953</u>	<u>\$ 54,976</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 56,206	\$ 43,375
Share-based compensation (a)	(6,923)	(4,039)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 49,283</u>	<u>\$ 39,336</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 46,991	\$ 30,016
Share-based compensation (a)	(8,395)	(5,961)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 38,596</u>	<u>\$ 24,055</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 214,453	\$ 180,468
Share-based compensation (a)	(28,005)	(18,786)
Write-off of acquired in-process technology (b)	-	(39,600)
Amortization of acquisition-related intangible assets (c)	(9,100)	(3,715)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 177,348</u>	<u>\$ 118,367</u>
<b>GAAP OPERATING INCOME (LOSS)</b>	\$ (19,517)	\$ 57,925
Cost of goods sold adjustments (a) (c) (d)	29,223	-
Operating expense adjustments (a) (b) (c)	37,105	62,101
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 46,811</u>	<u>\$ 120,026</u>
<b>GAAP NET INCOME (LOSS)</b>	\$ (575)	\$ 35,115
Cost of goods sold adjustments (a) (c) (d)	29,223	-
Operating expense adjustments (a) (b) (c)	37,105	62,101
Income tax adjustments (e)	(20,918)	(7,198)
<b>NON-GAAP NET INCOME</b>	<u>\$ 44,835</u>	<u>\$ 90,018</u>
Diluted net income (loss) per share:		
GAAP	\$ (0.00)	\$ 0.17
Non-GAAP	\$ 0.19	\$ 0.44
Shares used in computing diluted net income (loss) per share:		
GAAP	227,455	201,892
Non-GAAP	236,426	203,302

SanDisk Corporation  
Reconciliation of GAAP to Non-GAAP Operating Results (\*)  
(In thousands, except per share data, unaudited)

(\*) 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 record for stock 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 one 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 that 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.

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Preliminary Condensed Consolidated Balance Sheets  
(In thousands)

<b>ASSETS</b>	April 1, 2007 (unaudited)	December 31, 2006
Current Assets:		
Cash and cash equivalents	\$ 1,811,109	\$ 1,580,700
Short-term investments	1,144,838	1,228,773
Accounts receivable from product revenues, net	144,228	611,740
Inventory	594,156	495,984
Deferred taxes	175,770	176,007
Other current assets	187,379	148,657
Total current assets	<u>4,057,480</u>	<u>4,241,861</u>
Long-term investments	527,363	457,184
Property and equipment, net	328,645	317,965
Notes receivable and investments in flash ventures	442,884	462,307
Deferred taxes	95,366	102,100
Goodwill	852,862	910,254
Intangibles, net	376,827	389,078
Other non-current assets	68,783	87,034
Total Assets	<u>\$ 6,750,210</u>	<u>\$ 6,967,783</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 205,824	\$ 261,870
Accounts payable to related parties	142,566.00	139,627
Other current accrued liabilities	162,687	311,000
Deferred income on shipments to distributors and retailers and deferred revenue	99,273.42	183,950
Total current liabilities	<u>610,350</u>	<u>896,447</u>
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities and deferred revenue	115,269	72,226
Total Liabilities	<u>1,950,619</u>	<u>2,193,673</u>
Minority interest	3,651	5,976
Commitments and contingencies		
Stockholders' Equity:		
Common stock	3,686,562	3,657,121
Retained earnings	1,099,580	1,105,520
Accumulated other comprehensive income	9,798	5,493
Deferred compensation	-	-
Total stockholders' equity	<u>4,795,940</u>	<u>4,768,134</u>
Total Liabilities and Stockholders' Equity	<u>\$ 6,750,210</u>	<u>\$ 6,967,783</u>

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

	Three months ended	
	April 1, 2007	April 2, 2006
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (575)	\$ 35,115
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred taxes	11,431	(13,456)
Gain on investment in foundries	(2,204)	(593)
Depreciation and amortization	65,096	26,397
Provision for doubtful accounts	913	(526)
Share-based compensation expense	31,219	18,785
Tax benefit from share-based compensation	(6,261)	(41,909)
Write-off of acquired in-process technology	-	39,600
Other non-cash income (charges)	4,749	(1,208)
Changes in operating assets and liabilities:		
Accounts receivable	467,030	90,546
Inventory	(98,109)	(75,484)
Other assets	63,426	59,581
Accounts payable trade	(47,776)	(58,135)
Accounts payable to related parties	(2,911)	6,208
Other liabilities	(230,779)	(32,472)
Total adjustments	<u>255,824</u>	<u>17,334</u>
Net cash provided by operating activities	<u>255,249</u>	<u>52,449</u>
<b>Cash flows from investing activities:</b>		
Purchases of short and long-term investments	(537,162)	(119,769)
Proceeds from sale and maturities of short and long-term investments	549,146	154,664
Investment in Flash Partners and Flash Alliance	-	(43,581)
Acquisition of capital equipment, net	(43,799)	(52,597)
Notes receivable from FlashVision	24,777	-
Purchased technology and other assets	(13,240)	-
Cash acquired in business combination, net of acquisition costs	-	9,432
Net cash used in investing activities	<u>(20,278)</u>	<u>(51,851)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from employee stock programs	38,370	46,061
Distribution to minority interest	(7,485)	-
Tax benefit from share-based compensation	6,261	41,909
Shares repurchase program	(42,096)	-
Net cash provided by (used in) financing activities	<u>(4,950)</u>	<u>87,970</u>
Effect of changes in foreign currency exchange rates on cash	<u>388</u>	<u>(61)</u>
Net increase in cash and cash equivalents	230,409	88,507
Cash and cash equivalents at beginning of period	1,580,700	762,058
Cash and cash equivalents at end of period	<u>\$ 1,811,109</u>	<u>\$ 850,565</u>