

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

	Three months ended		Six months ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Revenues:				
Product	\$ 687,508	\$ 719,991	\$ 1,411,559	\$ 1,409,348
License and royalty	128,503	107,041	254,419	203,770
Total revenues	<u>816,011</u>	<u>827,032</u>	<u>1,665,978</u>	<u>1,613,118</u>
Cost of product revenues	650,558	588,736	1,227,162	1,158,824
Amortization of acquisition-related intangible assets	14,582	14,583	29,164	35,645
Total cost of product revenues	<u>665,140</u>	<u>603,319</u>	<u>1,256,326</u>	<u>1,194,469</u>
Gross profit	150,871	223,713	409,652	418,649
Operating expenses:				
Research and development	112,143	101,185	223,577	196,825
Sales and marketing	77,638	60,517	157,794	116,723
General and administrative	53,684	41,165	111,488	88,156
Restructuring	4,085	212	4,085	6,728
Amortization of acquisition-related intangible assets	4,553	7,050	9,028	16,150
Total operating expenses	<u>252,103</u>	<u>210,129</u>	<u>505,972</u>	<u>424,582</u>
Operating income (loss)	(101,232)	13,584	(96,320)	(5,933)
Total other income	<u>20,542</u>	<u>38,556</u>	<u>46,424</u>	<u>74,815</u>
Income (loss) before provision (benefit) for income taxes	(80,690)	52,140	(49,896)	68,882
Provision (benefit) for income taxes	<u>(12,813)</u>	<u>23,605</u>	<u>101</u>	<u>35,762</u>
Income (loss) after taxes	(67,877)	28,535	(49,997)	33,120
Minority interest	-	51	-	5,211
Net income (loss)	<u>\$ (67,877)</u>	<u>\$ 28,484</u>	<u>\$ (49,997)</u>	<u>\$ 27,909</u>
Net income (loss) per share calculation:				
Net income (loss) used in computing basic net income (loss) per share	\$ (67,877)	\$ 28,484	\$ (49,997)	\$ 27,909
Tax-effected interest costs related to convertible long-term debt	-	116	-	232
Net income (loss) used in computing diluted net income (loss) per share	<u>\$ (67,877)</u>	<u>\$ 28,600</u>	<u>\$ (49,997)</u>	<u>\$ 28,141</u>
Net income (loss) per share:				
Basic	\$ (0.30)	\$ 0.12	\$ (0.22)	\$ 0.12
Diluted	\$ (0.30)	\$ 0.12	\$ (0.22)	\$ 0.12
Shares used in computing net income (loss) per share:				
Basic	224,888	227,959	224,703	227,707
Diluted	224,888	236,036	224,703	235,951

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

	Three months ended		Six months ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
SUMMARY RECONCILIATION OF NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ (67,877)	\$ 28,484	\$ (49,997)	\$ 27,909
Adjustments:				
Share-based compensation (a)	25,108	36,971	48,334	68,190
Amortization of acquisition-related intangible assets (b)	19,135	21,633	38,192	51,795
Inventory step-up expense related to msystems acquisition (c)	-	2,119	-	7,066
Income tax adjustments (d)	1,293	(17,364)	(11,084)	(38,283)
NON-GAAP NET INCOME (LOSS)	<u>\$ (22,341)</u>	<u>\$ 71,843</u>	<u>\$ 25,445</u>	<u>\$ 116,677</u>
GAAP COST OF PRODUCT REVENUES				
	\$ 665,140	\$ 603,319	\$ 1,256,326	\$ 1,194,469
Share-based compensation (a)	(2,009)	(3,307)	(5,638)	(6,521)
Amortization of acquisition-related intangible assets (b)	(14,582)	(14,583)	(29,164)	(35,645)
Inventory step-up expense related to msystems acquisition (c)	-	(2,119)	-	(7,066)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 648,549</u>	<u>\$ 583,310</u>	<u>\$ 1,221,524</u>	<u>\$ 1,145,237</u>
GAAP GROSS PROFIT				
	\$ 150,871	\$ 223,713	\$ 409,652	\$ 418,649
Share-based compensation (a)	2,009	3,307	5,638	6,521
Amortization of acquisition-related intangible assets (b)	14,582	14,583	29,164	35,645
Inventory step-up expense related to msystems acquisition (c)	-	2,119	-	7,066
NON-GAAP GROSS PROFIT	<u>\$ 167,462</u>	<u>\$ 243,722</u>	<u>\$ 444,454</u>	<u>\$ 467,881</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
	\$ 112,143	\$ 101,185	\$ 223,577	\$ 196,825
Share-based compensation (a)	(9,324)	(13,013)	(18,150)	(25,700)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 102,819</u>	<u>\$ 88,172</u>	<u>\$ 205,427</u>	<u>\$ 171,125</u>
GAAP SALES AND MARKETING EXPENSES				
	\$ 77,638	\$ 60,517	\$ 157,794	\$ 116,723
Share-based compensation (a)	(6,423)	(10,361)	(9,934)	(17,284)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 71,215</u>	<u>\$ 50,156</u>	<u>\$ 147,860</u>	<u>\$ 99,439</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
	\$ 53,684	\$ 41,165	\$ 111,488	\$ 88,156
Share-based compensation (a)	(7,352)	(10,290)	(14,612)	(18,685)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 46,332</u>	<u>\$ 30,875</u>	<u>\$ 96,876</u>	<u>\$ 69,471</u>
GAAP TOTAL OPERATING EXPENSES				
	\$ 252,103	\$ 210,129	\$ 505,972	\$ 424,582
Share-based compensation (a)	(23,099)	(33,664)	(42,696)	(61,669)
Amortization of acquisition-related intangible assets (b)	(4,553)	(7,050)	(9,028)	(16,150)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 224,451</u>	<u>\$ 169,415</u>	<u>\$ 454,248</u>	<u>\$ 346,763</u>
GAAP OPERATING INCOME (LOSS)				
	\$ (101,232)	\$ 13,584	\$ (96,320)	\$ (5,933)
Cost of product revenues adjustments (a) (b) (c)	16,591	20,009	34,802	49,232
Operating expense adjustments (a) (b)	27,652	40,714	51,724	77,819
NON-GAAP OPERATING INCOME (LOSS)	<u>\$ (56,989)</u>	<u>\$ 74,307</u>	<u>\$ (9,794)</u>	<u>\$ 121,118</u>
GAAP NET INCOME (LOSS)				
	\$ (67,877)	\$ 28,484	\$ (49,997)	\$ 27,909
Cost of product revenues adjustments (a) (b) (c)	16,591	20,009	34,802	49,232
Operating expense adjustments (a) (b)	27,652	40,714	51,724	77,819
Income tax adjustments (d)	1,293	(17,364)	(11,084)	(38,283)
NON-GAAP NET INCOME (LOSS)	<u>\$ (22,341)</u>	<u>\$ 71,843</u>	<u>\$ 25,445</u>	<u>\$ 116,677</u>
Net income (loss) per share calculation: GAAP				
Net income (loss) used in computing basic GAAP net income per share	\$ (67,877)	\$ 28,484	\$ (49,997)	\$ 27,909
Tax-effected interest costs related to convertible long-term debt	-	116	-	232
Net income (loss) used in computing diluted net income per share	<u>\$ (67,877)</u>	<u>\$ 28,600</u>	<u>\$ (49,997)</u>	<u>\$ 28,141</u>
Net income (loss) per share calculation: Non-GAAP				
Net income (loss) used in computing basic Non-GAAP net income per share	\$ (22,341)	\$ 71,843	\$ 25,445	\$ 116,677
Tax-effected interest costs related to convertible long-term debt	-	116	-	232
Net income (loss) used in computing diluted net income per share	<u>\$ (22,341)</u>	<u>\$ 71,959</u>	<u>\$ 25,445</u>	<u>\$ 116,909</u>
Diluted net income (loss) per share:				
GAAP	\$ (0.30)	\$ 0.12	\$ (0.22)	\$ 0.12
Non-GAAP	\$ (0.10)	\$ 0.30	\$ 0.11	\$ 0.49
Shares used in computing diluted net income (loss) per share:				
GAAP	224,888	236,036	224,703	235,951
Non-GAAP	224,888	236,855	227,703	236,649

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, 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)

ASSETS	June 29, 2008 (unaudited)	December 30, 2007
Current Assets:		
Cash and cash equivalents	\$ 689,578	\$ 833,749
Short-term investments	619,632	1,001,641
Accounts receivable from product revenues, net	204,030	462,983
Inventory	795,606	555,077
Deferred taxes	192,128	212,255
Other current assets	337,660	233,952
Total current assets	2,838,634	3,299,657
Long-term investments	1,230,562	1,060,393
Property and equipment, net	414,387	422,895
Notes receivable and investments in flash ventures with Toshiba	1,284,617	1,108,905
Deferred taxes	150,661	117,130
Goodwill	844,048	840,870
Intangibles, net	286,740	322,023
Other non-current assets	60,918	62,946
Total Assets	\$ 7,110,567	\$ 7,234,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 237,822	\$ 285,711
Accounts payable to related parties	132,188	158,443
Other current accrued liabilities	205,877	286,850
Deferred income on shipments to distributors and retailers and deferred revenue	155,466	182,879
Total current liabilities	731,353	913,883
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities	191,299	135,252
Total Liabilities	2,147,652	2,274,135
Minority interest	151	1,067
Stockholders' Equity:		
Common stock	3,855,781	3,797,073
Retained earnings	1,080,072	1,130,069
Accumulated other comprehensive income	26,911	32,475
Total Stockholders' Equity	4,962,764	4,959,617
Total Liabilities and Stockholders' Equity	\$ 7,110,567	\$ 7,234,819

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

	Three months ended		Six months ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Cash flows from operating activities:				
Net income (loss)	\$ (67,877)	\$ 28,484	\$ (49,997)	\$ 27,909
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred and other taxes	2,157	24,329	(2,212)	35,760
(Gain) loss on equity investments	549	1,637	4,483	(567)
Depreciation and amortization	67,490	64,137	130,373	129,233
Provision for doubtful accounts	1,177	625	6,951	1,538
Share-based compensation expense	25,108	36,971	48,334	68,190
Excess tax benefit from share-based compensation	(883)	(5,247)	(1,677)	(11,508)
Other non-cash charges	1,892	3,827	7,284	8,576
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(24,935)	(168,103)	252,002	298,927
Inventory	(99,997)	(6,454)	(240,359)	(104,563)
Other assets	(159,556)	(93,601)	(49,575)	(30,176)
Accounts payable trade	5,125	1,535	(47,889)	(71,698)
Accounts payable to related parties	(35,976)	(11,668)	(32,255)	10,879
Other liabilities	(41,681)	33,077	(134,237)	(197,702)
Total adjustments	(259,530)	(118,935)	(58,777)	136,889
Net cash (used in) provided by operating activities	(327,407)	(90,451)	(108,774)	164,798
Cash flows from investing activities:				
Purchases of short and long-term investments	(537,265)	(1,054,695)	(892,220)	(1,591,857)
Proceeds from sale of short and long-term investments	294,532	194,723	728,896	233,382
Maturities of short and long-term investments	162,514	460,813	352,563	971,300
Investment in Flash Alliance Ltd.	(96,705)	-	(96,705)	-
Investment in FlashVision Ltd.	23,748	-	23,748	-
Acquisition of capital equipment, net	(50,138)	(54,002)	(106,912)	(97,801)
Notes receivable from FlashVision Ltd.	-	12,735	-	37,512
Notes receivable from Flash Partners Ltd.	-	(123,305)	(37,418)	(123,305)
Purchased technology and other assets	(3,000)	-	(1,875)	(13,240)
Acquisition of MusicGremlin, Inc., net	(4,528)	-	(4,528)	-
Net cash used in investing activities	(210,842)	(563,731)	(34,451)	(584,009)
Cash flows from financing activities:				
Proceeds (repayment) from debt financing	-	3,791	(9,785)	3,791
Proceeds from employee stock programs	2,913	15,732	9,350	54,102
Distribution to minority interest	-	(2,395)	-	(9,880)
Tax benefit from share-based compensation	883	5,247	1,677	11,508
Shares repurchase programs	-	(55,321)	-	(97,417)
Net cash provided by (used in) financing activities	3,796	(32,946)	1,242	(37,896)
Effect of changes in foreign currency exchange rates on cash	(1,254)	232	(2,188)	620
Net decrease in cash and cash equivalents	(535,707)	(686,896)	(144,171)	(456,487)
Cash and cash equivalents at beginning of period	1,225,285	1,811,109	833,749	1,580,700
Cash and cash equivalents at end of period	\$ 689,578	\$ 1,124,213	\$ 689,578	\$ 1,124,213