

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

	Three months ended		Twelve months ended	
	December 31, 2006	January 1, 2006	December 31, 2006	January 1, 2006
Revenues:				
Product	\$ 1,078,880	\$ 683,431	\$ 2,926,472	\$ 2,066,607
License and royalty	84,815	67,136	331,053	239,462
Total revenues	<u>1,163,695</u>	<u>750,567</u>	<u>3,257,525</u>	<u>2,306,069</u>
Cost of product revenues	737,295	448,503	2,007,684	1,333,335
Amortization of acquisition related intangible assets	10,368	-	10,368	-
Total cost of revenues	<u>747,663</u>	<u>448,503</u>	<u>2,018,052</u>	<u>1,333,335</u>
Gross profits	<u>416,032</u>	<u>302,064</u>	<u>1,239,473</u>	<u>972,734</u>
Operating expenses:				
Research and development	91,246	44,039	306,866	194,810
Sales and marketing	70,003	38,991	203,406	122,232
General and administrative	52,390	20,583	159,835	79,110
Write-off of acquired in-process technology	186,000	-	225,600	-
Amortization of acquisition related intangible assets	4,853	-	17,432	-
Total operating expenses	<u>404,492</u>	<u>103,613</u>	<u>913,139</u>	<u>396,152</u>
Operating income	11,540	198,451	326,334	576,582
Total other income	<u>31,674</u>	<u>14,111</u>	<u>104,374</u>	<u>36,725</u>
Income before taxes	43,214	212,562	430,708	613,307
Provision for income taxes	<u>76,736</u>	<u>78,648</u>	<u>230,193</u>	<u>226,923</u>
Income (loss) after taxes	(33,522)	133,914	200,515	386,384
Minority interest	1,619	-	1,619	-
Net income (loss)	<u>\$ (35,141)</u>	<u>\$ 133,914</u>	<u>\$ 198,896</u>	<u>\$ 386,384</u>
Net income (loss) per share:				
Basic	\$ (0.17)	\$ 0.72	\$ 1.00	\$ 2.11
Diluted	\$ (0.17)	\$ 0.68	\$ 0.96	\$ 2.00
Shares used in computing net income (loss) per share:				
Basic	210,849	186,884	198,929	183,008
Diluted	210,849	197,486	207,451	193,016

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

	Three months ended		Twelve months ended	
	December 31, 2006	January 1, 2006	December 31, 2006	January 1, 2006
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME (LOSS)	\$ (35,141)	\$ 133,914	\$ 198,896	\$ 386,384
Adjustments:				
Share-based compensation (a)	30,793	-	100,641	-
Amortization of acquisition related intangible assets (c)	15,221	-	27,800	-
Inventory step-up expense related to msystems acquisition (d)	4,471	-	4,471	-
Write-off of acquired in-process technology (b)	186,000	-	225,600	-
Income tax adjustments (e)	(9,673)	-	(34,548)	-
NON-GAAP NET INCOME	<u>\$ 191,671</u>	<u>\$ 133,914</u>	<u>\$ 522,860</u>	<u>\$ 386,384</u>
DETAILED RECONCILIATION OF SPECIFIC ITEMS:				
REVENUE				
Product revenues - Standalone SanDisk	\$ 964,295	\$ 683,431	\$ 2,811,887	\$ 2,066,607
Product revenues - Former msystems (f)	114,585	-	114,585	-
License and royalty - Standalone SanDisk	83,921	67,136	330,159	239,462
License and royalty - Former msystems (f)	894	-	894	-
CONSOLIDATED REVENUE	<u>\$ 1,163,695</u>	<u>\$ 750,567</u>	<u>\$ 3,257,525</u>	<u>\$ 2,306,069</u>
GAAP COST OF PRODUCT REVENUES				
Share-based compensation (a)	\$ 747,663	\$ 448,503	\$ 2,018,052	\$ 1,333,335
Amortization of acquisition related intangible assets (c)	(2,892)	-	(7,991)	-
Inventory step-up expense related to msystems acquisition (d)	(10,368)	-	(10,368)	-
	(4,471)	-	(4,471)	-
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 729,932</u>	<u>\$ 448,503</u>	<u>\$ 1,995,222</u>	<u>\$ 1,333,335</u>
Standalone SanDisk Non-GAAP cost of product revenues	629,951	448,503	1,895,241	1,333,335
Former msystems Non-GAAP cost of product revenues (f)	99,981	-	99,981	-
GAAP GROSS PROFIT				
Share-based compensation (a)	\$ 416,032	\$ 302,064	\$ 1,239,473	\$ 972,734
Amortization of acquisition related intangible assets (c)	2,892	-	7,991	-
Inventory step-up expense related to msystems acquisition (d)	10,368	-	10,368	-
	4,471	-	4,471	-
NON-GAAP GROSS PROFIT	<u>\$ 433,763</u>	<u>\$ 302,064</u>	<u>\$ 1,262,303</u>	<u>\$ 972,734</u>
Standalone SanDisk Non-GAAP gross profit	418,265	302,064	1,246,805	972,734
Former msystems Non-GAAP gross profit (f)	15,498	-	15,498	-
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
Share-based compensation (a)	\$ 91,246	\$ 44,039	\$ 306,866	\$ 194,810
	(11,522)	-	(40,999)	-
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 79,724</u>	<u>\$ 44,039</u>	<u>\$ 265,867</u>	<u>\$ 194,810</u>
GAAP SALES AND MARKETING EXPENSES				
Share-based compensation (a)	\$ 70,003	\$ 38,991	\$ 203,406	\$ 122,232
	(7,831)	-	(21,617)	-
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 62,172</u>	<u>\$ 38,991</u>	<u>\$ 181,789</u>	<u>\$ 122,232</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
Share-based compensation (a)	\$ 52,390	\$ 20,583	\$ 159,835	\$ 79,110
	(8,548)	-	(30,034)	-
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 43,842</u>	<u>\$ 20,583</u>	<u>\$ 129,801</u>	<u>\$ 79,110</u>
GAAP TOTAL OPERATING EXPENSES				
Share-based compensation (a)	\$ 404,492	\$ 103,613	\$ 913,139	\$ 396,152
Write-off of acquired in-process technology (b)	(27,901)	-	(92,650)	-
Amortization of acquisition related intangible assets (c)	(186,000)	-	(225,600)	-
	(4,853)	-	(17,432)	-
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 185,738</u>	<u>\$ 103,613</u>	<u>\$ 577,457</u>	<u>\$ 396,152</u>
GAAP OPERATING INCOME				
Cost of goods sold adjustments (a) (c) (d)	\$ 11,540	\$ 198,451	\$ 326,334	\$ 576,582
Operating expense adjustments (a-c)	17,731	-	22,830	-
	218,754	-	335,682	-
NON-GAAP OPERATING INCOME	<u>\$ 248,025</u>	<u>\$ 198,451</u>	<u>\$ 684,846</u>	<u>\$ 576,582</u>
Standalone SanDisk operating income	248,925	198,451	685,746	576,582
Former msystems operating loss (f)	(900)	-	(900)	-
GAAP NET INCOME (LOSS)				
Cost of goods sold adjustments (a) (c) (d)	\$ (35,141)	\$ 133,914	\$ 198,896	\$ 386,384
Operating expense adjustments (a-c)	17,731	-	22,830	-
Income tax adjustments (e)	218,754	-	335,682	-
	(9,673)	-	(34,548)	-
NON-GAAP NET INCOME	<u>\$ 191,671</u>	<u>\$ 133,914</u>	<u>\$ 522,860</u>	<u>\$ 386,384</u>
Diluted net income (loss) per share:				
GAAP	\$ (0.17)	\$ 0.68	\$ 0.96	\$ 2.00
Non-GAAP	\$ 0.87	\$ 0.68	\$ 2.51	\$ 2.00
Shares used in computing diluted net income (loss) per share:				
GAAP	210,849	197,486	207,451	193,016
Non-GAAP	220,090	197,486	208,661	193,016

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

	Three months ended	
	December 31, 2006	October 1, 2006
SUMMARY RECONCILIATION OF NET INCOME		
GAAP NET INCOME (LOSS)	\$ (35,141)	\$ 103,281
Adjustments:		
Share-based compensation (a)	30,793	25,193
Amortization of acquisition related intangible assets (c)	15,221	4,432
Inventory step-up expense related to msystems acquisition (d)	4,471	-
Write-off of acquired in-process technology (b)	186,000	-
Income tax adjustments (e)	(9,673)	(9,292)
NON-GAAP NET INCOME	\$ 191,671	\$ 123,614
DETAILED RECONCILIATION OF SPECIFIC ITEMS:		
REVENUE		
Product revenues - Standalone SanDisk	\$ 964,295	\$ 673,189
Product revenues - Former msystems (f)	114,585	-
License and royalty - Standalone SanDisk	83,921	78,196
License and royalty - Former msystems (f)	894	-
CONSOLIDATED REVENUE	\$ 1,163,695	\$ 751,385
GAAP COST OF PRODUCT REVENUES		
Share-based compensation (a)	\$ 747,663	\$ 455,345
Amortization of acquisition-related intangible assets (c)	(2,892)	(2,621)
Inventory step-up expense related to msystems acquisition (d)	(10,368)	-
	(4,471)	-
NON-GAAP COST OF PRODUCT REVENUES	\$ 729,932	\$ 452,724
Standalone SanDisk Non-GAAP cost of product revenues	629,951	452,724
Former msystems Non-GAAP cost of product revenues (f)	99,981	-
GAAP GROSS PROFIT		
Share-based compensation (a)	\$ 416,032	\$ 296,040
Amortization of acquisition related intangible assets (c)	2,892	2,621
Inventory step-up expense related to msystems acquisition (d)	10,368	-
	4,471	-
NON-GAAP GROSS PROFIT	\$ 433,763	\$ 298,661
Standalone SanDisk Non-GAAP gross profit	418,265	298,661
Former msystems Non-GAAP gross profit (f)	15,498	-
GAAP RESEARCH AND DEVELOPMENT EXPENSES		
Share-based compensation (a)	\$ 91,246	\$ 78,073
	(11,522)	(10,270)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 79,724	\$ 67,803
GAAP SALES AND MARKETING EXPENSES		
Share-based compensation (a)	\$ 70,003	\$ 44,961
	(7,831)	(4,623)
NON-GAAP SALES AND MARKETING EXPENSES	\$ 62,172	\$ 40,338
GAAP GENERAL AND ADMINISTRATIVE EXPENSES		
Share-based compensation (a)	\$ 52,390	\$ 40,247
	(8,548)	(7,679)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 43,842	\$ 32,568
GAAP TOTAL OPERATING EXPENSES		
Share-based compensation (a)	\$ 404,492	\$ 167,713
Write-off of acquired in-process technology (b)	(27,901)	(22,572)
Amortization of acquisition related intangible assets (c)	(186,000)	-
	(4,853)	(4,432)
NON-GAAP TOTAL OPERATING EXPENSES	\$ 185,738	\$ 140,709
GAAP OPERATING INCOME		
Cost of goods sold adjustments (a) (c) (d)	\$ 11,540	\$ 128,327
Operating expense adjustments (a-c)	17,731	2,621
	218,754	27,004
NON-GAAP OPERATING INCOME	\$ 248,025	\$ 157,952
Standalone SanDisk Non-GAAP operating income	248,925	157,952
Former msystems Non-GAAP operating loss (f)	(900)	-
GAAP NET INCOME (LOSS)		
Cost of goods sold adjustments (a) (c) (d)	\$ (35,141)	\$ 103,281
Operating expense adjustments (a-c)	17,731	2,621
Income tax adjustments (e)	218,754	27,004
	(9,673)	(9,292)
NON-GAAP NET INCOME (LOSS)	\$ 191,671	\$ 123,614
Diluted net income (loss) per share:		
GAAP	\$ (0.17)	\$ 0.51
Non-GAAP	\$ 0.87	\$ 0.61
Shares used in computing diluted net income (loss) per share:		
GAAP	210,849	202,747
Non-GAAP	220,090	203,757

(* 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 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 Semiconductor, Inc., or Matrix, acquisition (January 2006) and msystems Ltd, or 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.
- (f) msystems Ltd. results included in SanDisk from date of acquisition on November 19, 2006.

SanDisk Corporation
Condensed Consolidated Balance Sheets
(In thousands)

ASSETS	December 31, 2006 (unaudited)	January 1, 2006
Current Assets:		
Cash and cash equivalents	\$ 1,580,700	\$ 762,058
Short-term investments	1,228,773	935,639
Accounts receivable from product revenues, net	611,740	329,014
Inventory	495,984	331,584
Deferred taxes	176,007	95,518
Other current assets	148,657	121,922
Total current assets	4,241,861	2,575,735
Long-term investments	457,184	-
Property and equipment, net	317,965	211,092
Notes receivable and investments in flash ventures	462,307	265,074
Deferred taxes	78,002	-
Goodwill	910,254	5,415
Intangibles, net	389,078	4,608
Other non-current assets	87,034	58,263
Total assets	\$ 6,943,685	\$ 3,120,187
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 241,239	\$ 231,208
Accounts payable to related parties	160,258	74,121
Other current accrued liabilities	315,518	115,525
Deferred income on shipments to distributors and retailers and deferred revenue	183,950	150,283
Total current liabilities	900,965	571,137
Convertible long-term debt	1,225,000	-
Non-current liabilities and deferred revenue	48,128	25,259
Total liabilities	2,174,093	596,396
Minority interest	5,976	-
Commitments and contingencies		
Stockholders' Equity:		
Common stock	3,652,603	1,622,007
Retained earnings	1,105,520	906,624
Accumulated other comprehensive income	5,493	2,635
Deferred compensation	-	(7,475)
Total stockholders' equity	4,763,616	2,523,791
Total Liabilities and Stockholders' Equity	\$ 6,943,685	\$ 3,120,187

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

	Three months ended		Twelve months ended	
	December 31, 2006	January 1, 2006	December 31, 2006	January 1, 2006
Cash flows from operating activities:				
Net income (loss)	\$ (35,141)	\$ 133,914	\$ 198,896	\$ 386,384
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Deferred taxes	(1,615)	(1,344)	(25,636)	(1,538)
(Gain) loss on investment in foundries	(1,116)	(272)	(2,480)	8,480
Depreciation and amortization	45,876	18,868	135,585	65,774
Provision for doubtful accounts	556	(161)	3,316	(272)
Share-based compensation expense	30,793	908	100,641	2,499
Tax benefit from share-based compensation	2,627	-	(61,453)	-
Write-off of acquired in-process technology	186,000	-	225,600	-
Other non-cash income (charges)	(3,514)	(4,397)	(313)	5,071
Changes in operating assets and liabilities:				
Accounts receivable	(143,337)	(117,634)	(115,061)	(134,207)
Inventory	34,105	(44,706)	(23,660)	(135,162)
Other assets	(65,995)	(63,885)	(12,094)	(31,148)
Accounts payable trade	3,503	86,892	(84,860)	148,234
Accounts payable, related party	16,869	8,302	45,249	24,657
Other liabilities	114,436	62,386	210,273	142,083
Total adjustments	219,188	(55,043)	395,107	94,471
Net cash provided by operating activities	184,047	78,871	594,003	480,855
Cash flows from investing activities:				
Purchases of short and long-term investments	(697,778)	(312,685)	(2,135,973)	(803,967)
Proceeds from sale and maturities of short and long-term investments	615,348	267,228	1,497,120	722,986
Investment in Flash Partners and Flash Alliance	-	(21,790)	(132,209)	(21,790)
Investment in foundries	-	(3,500)	-	(3,500)
Acquisition of capital equipment, net	(53,031)	(53,977)	(176,474)	(134,477)
Notes receivable from FlashVision	15,014	-	23,538	(34,249)
Notes receivable from Flash Partners	-	-	(95,445)	-
Notes receivable from Matrix Semiconductor	-	(20,000)	-	(20,000)
Notes receivable from Tower	(2,912)	-	(9,705)	-
Acquisition of technology licenses	-	(4,500)	-	(4,500)
Cash acquired in business combination, net of acquisition costs	41,655	-	51,087	-
Net cash used in investing activities	(81,704)	(149,224)	(978,061)	(299,497)
Cash flows from financing activities:				
Proceeds from issuance of convertible debt, net of issuance costs	-	-	1,125,500	-
Purchase of convertible bond hedge	-	-	(386,090)	-
Proceeds from issuance of warrants	-	-	308,672	-
Proceeds from employee stock programs	10,196	67,155	96,304	115,398
Cash distribution to minority interest	(4,491)	-	(4,491)	-
Tax benefit from share-based compensation	(2,627)	-	61,453	-
Net cash provided by financing activities	3,078	67,155	1,201,348	115,398
Effect of changes in foreign currency exchange rates on cash	1,124	644	1,352	1,507
Net increase (decrease) in cash and cash equivalents	106,545	(2,554)	818,642	298,263
Cash and cash equivalents at beginning of period	1,474,155	764,612	762,058	463,795
Cash and cash equivalents at end of period	<u>\$ 1,580,700</u>	<u>\$ 762,058</u>	<u>\$ 1,580,700</u>	<u>\$ 762,058</u>