

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

	Three months ended	
	April 3, 2011	April 4, 2010
Revenues:		
Product	\$ 1,210,247	\$ 993,195
License and royalty	83,953	93,468
Total revenues	<u>1,294,200</u>	<u>1,086,663</u>
Cost of product revenues	737,492	583,353
Amortization of acquisition-related intangible assets	5,116	3,132
Total cost of product revenues	<u>742,608</u>	<u>586,485</u>
Gross profit	551,592	500,178
Operating expenses:		
Research and development	119,542	98,653
Sales and marketing	47,457	48,501
General and administrative	35,299	38,724
Amortization of acquisition-related intangible assets	—	292
Total operating expenses	<u>202,298</u>	<u>186,170</u>
Operating income	349,294	314,008
Other income (expense)	<u>(18,366)</u>	<u>8,986</u>
Income before income taxes	330,928	322,994
Provision for income taxes	106,804	88,303
Net income	<u>\$ 224,124</u>	<u>\$ 234,691</u>
Net income per share:		
Basic	\$ 0.94	\$ 1.02
Diluted	\$ 0.92	\$ 0.99
Shares used in computing net income per share:		
Basic	237,473	229,300
Diluted	243,404	236,884

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

	Three months ended	
	April 3, 2011	April 4, 2010
SUMMARY RECONCILIATION OF NET INCOME		
GAAP NET INCOME	\$ 224,124	\$ 234,691
Share-based compensation (a)	14,591	16,870
Amortization of acquisition-related intangible assets (b)	5,116	3,424
Convertible debt interest (c)	23,365	13,921
Income tax adjustments (d)	(16,616)	(43,864)
NON-GAAP NET INCOME	\$ 250,580	\$ 225,042
GAAP COST OF PRODUCT REVENUES	\$ 742,608	\$ 586,485
Share-based compensation (a)	(943)	(2,458)
Amortization of acquisition-related intangible assets (b)	(5,116)	(3,132)
NON-GAAP COST OF PRODUCT REVENUES	\$ 736,549	\$ 580,895
GAAP GROSS PROFIT	\$ 551,592	\$ 500,178
Share-based compensation (a)	943	2,458
Amortization of acquisition-related intangible assets (b)	5,116	3,132
NON-GAAP GROSS PROFIT	\$ 557,651	\$ 505,768
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 119,542	\$ 98,653
Share-based compensation (a)	(7,244)	(6,802)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 112,298	\$ 91,851
GAAP SALES AND MARKETING EXPENSES	\$ 47,457	\$ 48,501
Share-based compensation (a)	(2,174)	(2,188)
NON-GAAP SALES AND MARKETING EXPENSES	\$ 45,283	\$ 46,313
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 35,299	\$ 38,724
Share-based compensation (a)	(4,230)	(5,422)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 31,069	\$ 33,302
GAAP TOTAL OPERATING EXPENSES	\$ 202,298	\$ 186,170
Share-based compensation (a)	(13,648)	(14,412)
Amortization of acquisition-related intangible assets (b)	-	(292)
NON-GAAP TOTAL OPERATING EXPENSES	\$ 188,650	\$ 171,466
GAAP OPERATING INCOME	\$ 349,294	\$ 314,008
Cost of product revenues adjustments (a) (b)	6,059	5,590
Operating expense adjustments (a) (b)	13,648	14,704
NON-GAAP OPERATING INCOME	\$ 369,001	\$ 334,302
GAAP OTHER INCOME (EXPENSE)	\$ (18,366)	\$ 8,986
Convertible debt interest (c)	23,365	13,921
NON-GAAP OTHER INCOME (EXPENSE)	\$ 4,999	\$ 22,907
GAAP NET INCOME	\$ 224,124	\$ 234,691
Cost of product revenues adjustments (a) (b)	6,059	5,590
Operating expense adjustments (a) (b)	13,648	14,704
Convertible debt interest (c)	23,365	13,921
Income tax adjustments (d)	(16,616)	(43,864)
NON-GAAP NET INCOME	\$ 250,580	\$ 225,042
Diluted net income per share:		
GAAP	\$ 0.92	\$ 0.99
Non-GAAP	\$ 1.03	\$ 0.95
Shares used in computing diluted net income per share:		
GAAP	243,404	236,884
Non-GAAP	243,441	236,245

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 and MusicGremlin, Inc. in June 2008, 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 and developed technology, related to the acquisitions of Matrix Semiconductor, Inc. (January 2006) and MusicGremlin, Inc. (June 2008).
 - (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)

	April 3, 2011	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 974,450	\$ 829,149
Short-term marketable securities	1,998,204	2,018,565
Accounts receivable from product revenues, net	239,065	367,784
Inventory	493,408	509,585
Deferred taxes	103,207	104,582
Other current assets	127,506	203,027
Total current assets	3,935,840	4,032,692
Long-term marketable securities	2,534,050	2,494,972
Property and equipment, net	269,184	266,721
Notes receivable and investments in the flash ventures with Toshiba	1,801,852	1,733,491
Deferred taxes	145,671	149,486
Intangible assets, net	129,466	37,404
Other non-current assets	92,010	61,944
Total assets	\$ 8,908,073	\$ 8,776,710
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 136,850	\$ 173,259
Accounts payable to related parties	211,248	241,744
Other current accrued liabilities	253,353	284,709
Deferred income on shipments to distributors and retailers and deferred revenue	252,914	260,395
Total current liabilities	854,365	960,107
Convertible long-term debt	1,734,890	1,711,032
Non-current liabilities	328,922	326,176
Total liabilities	2,918,177	2,997,315
EQUITY		
Stockholders' equity:		
Common stock	4,771,643	4,709,743
Retained earnings	1,036,777	812,653
Accumulated other comprehensive income	184,793	260,228
Total stockholders' equity	5,993,213	5,782,624
Non-controlling interests	(3,317)	(3,229)
Total equity	5,989,896	5,779,395
Total liabilities and equity	\$ 8,908,073	\$ 8,776,710

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

	Three months ended	
	April 3, 2011	April 4, 2010
Cash flows from operating activities:		
Net income	\$ 224,124	\$ 234,691
Adjustments to reconcile net income to net cash flows from operating activities:		
Deferred taxes	6,174	(60,622)
Depreciation	29,775	35,065
Amortization	32,839	20,151
Provision for doubtful accounts	(2,745)	(1,622)
Share-based compensation expense	14,591	16,870
Excess tax benefit from share-based compensation	(6,412)	(2,167)
Impairments, restructuring and other	(13,177)	(20,323)
Other non-operating	20,448	9,265
Changes in operating assets and liabilities:		
Accounts receivable from product revenues	131,464	(106)
Inventory	16,379	26,488
Other assets	(23,749)	88,250
Accounts payable trade	(36,309)	(38,908)
Accounts payable to related parties	(30,496)	(39,043)
Other liabilities	35,733	60,290
Total adjustments	<u>174,515</u>	<u>93,588</u>
Net cash provided by operating activities	<u>398,639</u>	<u>328,279</u>
Cash flows from investing activities:		
Purchases of short and long-term marketable securities	(637,501)	(611,413)
Proceeds from sale of short and long-term marketable securities	497,603	217,277
Proceeds from maturities of short and long-term marketable securities	117,240	43,720
Acquisition of property and equipment	(33,745)	(14,928)
Investment in Flash Forward Ltd.	(61)	—
Distribution from FlashVision Ltd.	—	122
Notes receivable issuance, Flash Partners Ltd. and Flash Alliance Ltd.	(213,951)	—
Notes receivable proceeds, Flash Partners Ltd. and Flash Alliance Ltd.	85,096	—
Proceeds from sale of assets	—	17,767
Purchased technology and other assets	(115,000)	(1,982)
Net cash used in investing activities	<u>(300,319)</u>	<u>(349,437)</u>
Cash flows from financing activities:		
Repayment of debt financing	—	(75,000)
Proceeds from employee stock programs	42,148	17,955
Excess tax benefit from share-based compensation	6,412	2,167
Net cash provided by (used in) financing activities	<u>48,560</u>	<u>(54,878)</u>
Effect of changes in foreign currency exchange rates on cash	<u>(1,579)</u>	<u>(1,817)</u>
Net increase (decrease) in cash and cash equivalents	145,301	(77,853)
Cash and cash equivalents at beginning of period	829,149	1,100,364
Cash and cash equivalents at end of period	<u>\$ 974,450</u>	<u>\$ 1,022,511</u>