

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

	Three months ended		Twelve months ended	
	January 2, 2011	January 3, 2010	January 2, 2011	January 3, 2010
Revenues:				
Product	\$ 1,240,827	\$ 1,141,972	\$ 4,462,930	\$ 3,154,314
License and royalty	86,576	99,619	363,877	412,492
Total revenues	<u>1,327,403</u>	<u>1,241,591</u>	<u>4,826,807</u>	<u>3,566,806</u>
Cost of product revenues	747,985	637,960	2,552,188	2,269,651
Amortization of acquisition-related intangible assets	3,133	3,133	12,529	12,529
Total cost of product revenues	<u>751,118</u>	<u>641,093</u>	<u>2,564,717</u>	<u>2,282,180</u>
Gross profit	576,285	600,498	2,262,090	1,284,626
Operating expenses:				
Research and development	112,592	111,078	422,562	384,158
Sales and marketing	58,812	64,477	209,797	208,514
General and administrative	47,838	49,048	166,485	171,359
Amortization of acquisition-related intangible assets	-	292	1,672	1,167
Restructuring and other	-	(727)	-	38
Total operating expenses	<u>219,242</u>	<u>224,168</u>	<u>800,516</u>	<u>765,236</u>
Operating income	357,043	376,330	1,461,574	519,390
Other income (expense)	(9,935)	926	(4,141)	(15,589)
Income before income taxes	347,108	377,256	1,457,433	503,801
Provision for (benefit from) income taxes	(138,357)	37,751	157,291	88,491
Net income	<u>\$ 485,465</u>	<u>\$ 339,505</u>	<u>\$ 1,300,142</u>	<u>\$ 415,310</u>
Net income per share:				
Basic	\$ 2.06	\$ 1.49	\$ 5.59	\$ 1.83
Diluted	\$ 2.01	\$ 1.45	\$ 5.44	\$ 1.79
Shares used in computing net income per share:				
Basic	235,231	228,392	232,531	227,435
Diluted	241,034	234,462	238,901	231,959

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

	Three months ended		Twelve months ended	
	January 2, 2011	January 3, 2010	January 2, 2011	January 3, 2010
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME	\$ 485,465	\$ 339,505	\$ 1,300,142	\$ 415,310
Share-based compensation (a)	24,799	37,502	77,590	95,560
Amortization of acquisition-related intangible assets (b)	3,133	3,425	14,201	13,696
Convertible debt interest (c)	22,786	14,959	68,898	54,454
Income tax adjustments (d)	(229,555)	(118,180)	(360,508)	(151,813)
NON-GAAP NET INCOME	<u>\$ 306,628</u>	<u>\$ 277,211</u>	<u>\$ 1,100,323</u>	<u>\$ 427,207</u>
GAAP COST OF PRODUCT REVENUES	\$ 751,118	\$ 641,093	\$ 2,564,717	\$ 2,282,180
Share-based compensation (a)	(849)	(5,260)	(5,821)	(12,427)
Amortization of acquisition-related intangible assets (b)	(3,133)	(3,133)	(12,529)	(12,529)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 747,136</u>	<u>\$ 632,700</u>	<u>\$ 2,546,367</u>	<u>\$ 2,257,224</u>
GAAP GROSS PROFIT	\$ 576,285	\$ 600,498	\$ 2,262,090	\$ 1,284,626
Share-based compensation (a)	849	5,260	5,821	12,427
Amortization of acquisition-related intangible assets (b)	3,133	3,133	12,529	12,529
NON-GAAP GROSS PROFIT	<u>\$ 580,267</u>	<u>\$ 608,891</u>	<u>\$ 2,280,440</u>	<u>\$ 1,309,582</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 112,592	\$ 111,078	\$ 422,562	\$ 384,158
Share-based compensation (a)	(6,317)	(14,058)	(26,292)	(36,399)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 106,275</u>	<u>\$ 97,020</u>	<u>\$ 396,270</u>	<u>\$ 347,759</u>
GAAP SALES AND MARKETING EXPENSES	\$ 58,812	\$ 64,477	\$ 209,797	\$ 208,514
Share-based compensation (a)	(2,634)	(8,094)	(10,934)	(19,247)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 56,178</u>	<u>\$ 56,383</u>	<u>\$ 198,863</u>	<u>\$ 189,267</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 47,838	\$ 49,048	\$ 166,485	\$ 171,359
Share-based compensation (a)	(14,999)	(10,090)	(34,543)	(27,487)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 32,839</u>	<u>\$ 38,958</u>	<u>\$ 131,942</u>	<u>\$ 143,872</u>
GAAP TOTAL OPERATING EXPENSES	\$ 219,242	\$ 224,168	\$ 800,516	\$ 765,236
Share-based compensation (a)	(23,950)	(32,242)	(71,769)	(83,133)
Amortization of acquisition-related intangible assets (b)	-	(292)	(1,672)	(1,167)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 195,292</u>	<u>\$ 191,634</u>	<u>\$ 727,075</u>	<u>\$ 680,936</u>
GAAP OPERATING INCOME	\$ 357,043	\$ 376,330	\$ 1,461,574	\$ 519,390
Cost of product revenues adjustments (a) (b)	3,982	8,393	18,350	24,956
Operating expense adjustments (a) (b)	23,950	32,534	73,441	84,300
NON-GAAP OPERATING INCOME	<u>\$ 384,975</u>	<u>\$ 417,257</u>	<u>\$ 1,553,365</u>	<u>\$ 628,646</u>
GAAP OTHER INCOME (EXPENSE)	\$ (9,935)	\$ 926	\$ (4,141)	\$ (15,589)
Convertible debt interest (c)	22,786	14,959	68,898	54,454
NON-GAAP OTHER INCOME (EXPENSE)	<u>\$ 12,851</u>	<u>\$ 15,885</u>	<u>\$ 64,757</u>	<u>\$ 38,865</u>
GAAP NET INCOME	\$ 485,465	\$ 339,505	\$ 1,300,142	\$ 415,310
Cost of product revenues adjustments (a) (b)	3,982	8,393	18,350	24,956
Operating expense adjustments (a) (b)	23,950	32,534	73,441	84,300
Convertible debt interest (c)	22,786	14,959	68,898	54,454
Income tax adjustments (d)	(229,555)	(118,180)	(360,508)	(151,813)
NON-GAAP NET INCOME	<u>\$ 306,628</u>	<u>\$ 277,211</u>	<u>\$ 1,100,323</u>	<u>\$ 427,207</u>
Diluted net income per share:				
GAAP	\$ 2.01	\$ 1.45	\$ 5.44	\$ 1.79
Non-GAAP	\$ 1.27	\$ 1.18	\$ 4.60	\$ 1.84
Shares used in computing diluted net income per share:				
GAAP	241,034	234,462	238,901	231,959
Non-GAAP	241,059	234,381	239,042	232,300

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)

	January 2, 2011	January 3, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 829,149	\$ 1,100,364
Short-term marketable securities	2,018,565	819,002
Accounts receivable from product revenues, net	367,784	234,407
Inventory	509,585	596,493
Deferred taxes	104,582	66,869
Other current assets	203,027	97,639
Total current assets	4,032,692	2,914,774
Long-term marketable securities	2,494,972	1,097,095
Property and equipment, net	266,721	300,997
Notes receivable and investments in the flash ventures with Toshiba	1,733,491	1,507,550
Deferred taxes	149,486	21,210
Intangible assets, net	37,404	58,076
Other non-current assets	61,944	102,017
Total assets	\$ 8,776,710	\$ 6,001,719
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 173,259	\$ 134,427
Accounts payable to related parties	241,744	182,091
Convertible short-term debt	-	75,000
Other current accrued liabilities	284,709	234,079
Deferred income on shipments to distributors and retailers and deferred revenue	260,395	245,513
Total current liabilities	960,107	871,110
Convertible long-term debt	1,711,032	934,722
Non-current liabilities	326,176	287,478
Total liabilities	2,997,315	2,093,310
EQUITY		
Stockholders' equity:		
Common stock	4,709,743	4,269,074
Retained earnings (accumulated deficit)	812,653	(487,489)
Accumulated other comprehensive income	260,228	128,713
Total stockholders' equity	5,782,624	3,910,298
Non-controlling interests	(3,229)	(1,889)
Total equity	5,779,395	3,908,409
Total liabilities and equity	\$ 8,776,710	\$ 6,001,719

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

	Three months ended		Twelve months ended	
	January 2, 2011	January 3, 2010	January 2, 2011	January 3, 2010
Cash flows from operating activities:				
Net income	\$ 485,465	\$ 339,505	\$ 1,300,142	\$ 415,310
Adjustments to reconcile net income to net cash flows from operating activities:				
Deferred taxes	(76,478)	(15,405)	(172,327)	(12,884)
Depreciation	30,743	38,011	132,818	152,606
Amortization	28,612	21,404	93,961	78,090
Provision for doubtful accounts	229	(2,394)	(2,575)	(719)
Share-based compensation expense	24,799	37,502	77,590	95,560
Excess tax benefit from share-based compensation	(9,666)	-	(29,626)	-
Impairments, restructuring and other	(13,918)	(1,408)	(41,505)	4,293
Other non-operating	15,346	(3,740)	41,054	(2,757)
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(28,207)	47,663	(132,479)	(111,597)
Inventory	17,340	23,666	84,314	(13,485)
Other assets	(129,278)	(14,294)	(127,629)	324,981
Accounts payable trade	21,598	10,991	38,957	(106,634)
Accounts payable to related parties	77,837	(110,646)	59,653	(187,915)
Other liabilities	(85,025)	17,175	129,544	(146,995)
Total adjustments	(126,068)	48,525	151,750	72,544
Net cash provided by operating activities	<u>359,397</u>	<u>388,030</u>	<u>1,451,892</u>	<u>487,854</u>
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(1,571,485)	(431,101)	(5,803,438)	(1,668,978)
Proceeds from sale of short and long-term marketable securities	1,135,291	276,879	2,771,840	1,137,734
Proceeds from maturities of short and long-term marketable securities	89,196	62,757	407,001	205,874
Acquisition of property and equipment	(48,414)	(16,379)	(108,142)	(59,733)
Distribution from FlashVision Ltd.	-	-	122	12,713
Notes receivable issuance, Flash Partners Ltd. and Flash Alliance Ltd.	(59,880)	-	(59,880)	(377,923)
Notes receivable proceeds, Flash Partners Ltd. and Flash Alliance Ltd.	-	57,129	59,664	387,278
Proceeds from sale of assets	-	-	17,767	-
Purchased technology and other assets	2,455	2,000	473	(11,790)
Net cash used in investing activities	<u>(452,837)</u>	<u>(48,715)</u>	<u>(2,714,593)</u>	<u>(374,825)</u>
Cash flows from financing activities:				
Proceeds from issuance of convertible senior notes, net of issuance costs	-	-	982,500	-
Purchase of convertible bond hedge	-	-	(292,900)	-
Proceeds from issuance of warrants	-	-	188,100	-
Repayment of debt financing	-	-	(75,000)	-
Proceeds from employee stock programs	44,872	6,880	152,843	20,878
Excess tax benefit from share-based compensation	9,666	-	29,626	-
Net cash provided by financing activities	<u>54,538</u>	<u>6,880</u>	<u>985,169</u>	<u>20,878</u>
Effect of changes in foreign currency exchange rates on cash	<u>2,663</u>	<u>1,686</u>	<u>6,317</u>	<u>4,396</u>
Net increase (decrease) in cash and cash equivalents	(36,239)	347,881	(271,215)	138,303
Cash and cash equivalents at beginning of period	865,388	752,483	1,100,364	962,061
Cash and cash equivalents at end of period	<u>\$ 829,149</u>	<u>\$ 1,100,364</u>	<u>\$ 829,149</u>	<u>\$ 1,100,364</u>