

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

	Three months ended		Six months ended	
	June 28, 2009	June 29, 2008 <sup>(1)</sup>	June 28, 2009	June 29, 2008 <sup>(1)</sup>
Revenues:				
Product	\$ 610,432	\$ 687,508	\$ 1,198,531	\$ 1,411,559
License and royalty	120,141	128,503	191,513	254,419
Total revenues	<u>730,573</u>	<u>816,011</u>	<u>1,390,044</u>	<u>1,665,978</u>
Cost of product revenues	478,444	650,558	1,135,922	1,227,162
Amortization of acquisition-related intangible assets	3,132	14,582	6,264	29,164
Total cost of product revenues	<u>481,576</u>	<u>665,140</u>	<u>1,142,186</u>	<u>1,256,326</u>
Gross profit	248,997	150,871	247,858	409,652
Operating expenses:				
Research and development	91,219	112,143	178,155	223,577
Sales and marketing	50,409	77,638	88,287	157,794
General and administrative	38,636	53,684	76,961	111,488
Amortization of acquisition-related intangible assets	291	4,553	583	9,028
Restructuring and other	-	4,085	765	4,085
Total operating expenses	<u>180,555</u>	<u>252,103</u>	<u>344,751</u>	<u>505,972</u>
Operating income (loss)	68,442	(101,232)	(96,893)	(96,320)
Other income (expense)	4,716	8,323	(13,977)	22,208
Income (loss) before income taxes	<u>73,158</u>	<u>(92,909)</u>	<u>(110,870)</u>	<u>(74,112)</u>
Provision for (benefit from) income taxes	20,651	(19,155)	44,618	(11,318)
Net income (loss)	<u>\$ 52,507</u>	<u>\$ (73,754)</u>	<u>\$ (155,488)</u>	<u>\$ (62,794)</u>
Net income (loss) per share:				
Basic	\$ 0.23	\$ (0.33)	\$ (0.69)	\$ (0.28)
Diluted	\$ 0.23	\$ (0.33)	\$ (0.69)	\$ (0.28)
Shares used in computing net income (loss) per share:				
Basic	226,976	224,888	226,753	224,703
Diluted	231,066	224,888	226,753	224,703

<sup>(1)</sup> As adjusted for the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, on December 29, 2008.

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

	Three months ended		Six months ended	
	June 28, 2009	June 29, 2008 <sup>(2)</sup>	June 28, 2009	June 29, 2008 <sup>(2)</sup>
<b>SUMMARY RECONCILIATION OF NET INCOME (LOSS)</b>				
<b>GAAP NET INCOME (LOSS)</b>	\$ 52,507	\$ (73,754)	\$ (155,488)	\$ (62,794)
Share-based compensation (a)	22,354	25,108	38,684	48,334
Amortization of acquisition-related intangible assets (b)	3,423	19,135	6,847	38,192
Convertible debt interest (c)	13,159	12,219	26,085	24,216
Income tax adjustments (d)	(8,495)	(5,049)	58,357	(22,503)
<b>NON-GAAP NET INCOME (LOSS)</b>	<u>\$ 82,948</u>	<u>\$ (22,341)</u>	<u>\$ (25,515)</u>	<u>\$ 25,445</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 481,576	\$ 665,140	\$ 1,142,186	\$ 1,256,326
Share-based compensation (a)	(2,446)	(2,009)	(4,820)	(5,638)
Amortization of acquisition-related intangible assets (b)	(3,132)	(14,582)	(6,264)	(29,164)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 475,998</u>	<u>\$ 648,549</u>	<u>\$ 1,131,102</u>	<u>\$ 1,221,524</u>
<b>GAAP GROSS PROFIT</b>	\$ 248,997	\$ 150,871	\$ 247,858	\$ 409,652
Share-based compensation (a)	2,446	2,009	4,820	5,638
Amortization of acquisition-related intangible assets (b)	3,132	14,582	6,264	29,164
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 254,575</u>	<u>\$ 167,462</u>	<u>\$ 258,942</u>	<u>\$ 444,454</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 91,219	\$ 112,143	\$ 178,155	\$ 223,577
Share-based compensation (a)	(9,052)	(9,324)	(15,204)	(18,150)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 82,167</u>	<u>\$ 102,819</u>	<u>\$ 162,951</u>	<u>\$ 205,427</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 50,409	\$ 77,638	\$ 88,287	\$ 157,794
Share-based compensation (a)	(4,886)	(6,423)	(7,235)	(9,934)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 45,523</u>	<u>\$ 71,215</u>	<u>\$ 81,052</u>	<u>\$ 147,860</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 38,636	\$ 53,684	\$ 76,961	\$ 111,488
Share-based compensation (a)	(5,970)	(7,352)	(11,425)	(14,612)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 32,666</u>	<u>\$ 46,332</u>	<u>\$ 65,536</u>	<u>\$ 96,876</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 180,555	\$ 252,103	\$ 344,751	\$ 505,972
Share-based compensation (a)	(19,908)	(23,099)	(33,864)	(42,696)
Amortization of acquisition-related intangible assets (b)	(291)	(4,553)	(583)	(9,028)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 160,356</u>	<u>\$ 224,451</u>	<u>\$ 310,304</u>	<u>\$ 454,248</u>
<b>GAAP OPERATING INCOME (LOSS)</b>	\$ 68,442	\$ (101,232)	\$ (96,893)	\$ (96,320)
Cost of product revenues adjustments (a) (b)	5,578	16,591	11,084	34,802
Operating expense adjustments (a) (b)	20,199	27,652	34,447	51,724
<b>NON-GAAP OPERATING INCOME (LOSS)</b>	<u>\$ 94,219</u>	<u>\$ (56,989)</u>	<u>\$ (51,362)</u>	<u>\$ (9,794)</u>
<b>GAAP OTHER INCOME (EXPENSE)</b>	\$ 4,716	\$ 8,323	\$ (13,977)	\$ 22,208
Convertible debt interest (c)	13,159	12,219	26,085	24,216
<b>NON-GAAP OTHER INCOME (EXPENSE)</b>	<u>\$ 17,875</u>	<u>\$ 20,542</u>	<u>\$ 12,108</u>	<u>\$ 46,424</u>
<b>GAAP NET INCOME (LOSS)</b>	\$ 52,507	\$ (73,754)	\$ (155,488)	\$ (62,794)
Cost of product revenues adjustments (a) (b)	5,578	16,591	11,084	34,802
Operating expense adjustments (a) (b)	20,199	27,652	34,447	51,724
Convertible debt interest (c)	13,159	12,219	26,085	24,216
Income tax adjustments (d)	(8,495)	(5,049)	58,357	(22,503)
<b>NON-GAAP NET INCOME (LOSS)</b>	<u>\$ 82,948</u>	<u>\$ (22,341)</u>	<u>\$ (25,515)</u>	<u>\$ 25,445</u>
Diluted net income (loss) per share:				
GAAP	\$ 0.23	\$ (0.33)	\$ (0.69)	\$ (0.28)
Non-GAAP	\$ 0.36	\$ (0.10)	\$ (0.11)	\$ 0.11
Shares used in computing diluted net income (loss) per share:				
GAAP	231,066	224,888	226,753	224,703
Non-GAAP	231,818	224,888	226,753	227,703

SanDisk Corporation  
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results <sup>(1)</sup>

(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 (loss) and net income (loss) 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, msystems Ltd. in November 2006 and MusicGremlin, Inc. in June 2008, and economic non-cash interest expense associated with our cash-settled convertible debt, 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, and economic non-cash interest expense associated with our cash-settled convertible debt, 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.

(2) As adjusted for the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, on December 29, 2008.

(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), msystems Ltd. (November 2006), and MusicGremlin, Inc. (June 2008).

(c) Incremental interest expense associated with the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, on December 29, 2008.

(d) Income taxes associated with certain non-GAAP to GAAP adjustments and a valuation allowance on deferred taxes.

**SanDisk Corporation**  
**Preliminary Condensed Consolidated Balance Sheets**  
(in thousands, unaudited)

	<b>June 28, 2009</b>	<b>December 28, 2008 <sup>(1)</sup></b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 884,527	\$ 962,061
Short-term investments	477,622	477,296
Accounts receivable from product revenues, net	150,830	122,092
Inventory	527,071	598,251
Deferred taxes	55,529	84,023
Other current assets	197,559	469,961
Total current assets	2,293,138	2,713,684
Long-term investments	975,864	1,097,302
Property and equipment, net	350,812	396,987
Notes receivable and investments in the flash ventures with Toshiba	1,511,745	1,602,291
Deferred taxes	14,640	15,188
Intangible assets, net	61,472	63,182
Other non-current assets	38,311	43,506
Total assets	\$ 5,245,982	\$ 5,932,140
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable trade	\$ 116,298	\$ 240,985
Accounts payable to related parties	246,743	370,006
Convertible short-term debt	75,000	-
Other current accrued liabilities	204,148	502,443
Deferred income on shipments to distributors and retailers and deferred revenue	172,987	149,575
Total current liabilities	815,176	1,263,009
Convertible long-term debt	905,766	954,094
Non-current liabilities	259,588	274,316
Total liabilities	1,980,530	2,491,419
<b>EQUITY</b>		
Stockholders' equity:		
Common stock	4,198,674	4,154,392
Accumulated deficit	(1,058,287)	(902,799)
Accumulated other comprehensive income	125,924	188,977
Total stockholders' equity	3,266,311	3,440,570
Non-controlling interests	(859)	151
Total equity	3,265,452	3,440,721
Total liabilities and equity	\$ 5,245,982	\$ 5,932,140

<sup>(1)</sup> As adjusted for the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, on December 29, 2008.

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

	Three months ended		Six months ended	
	June 28, 2009	June 29, 2008 <sup>(1)</sup>	June 28, 2009	June 29, 2008 <sup>(1)</sup>
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 52,507	\$ (73,754)	\$ (155,488)	\$ (62,794)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:				
Deferred and other taxes	(6,619)	(4,185)	2,303	(13,631)
Depreciation	37,527	45,665	76,652	86,875
Amortization	18,766	34,044	37,110	67,714
Provision for doubtful accounts	(2,942)	1,177	(779)	6,951
Share-based compensation expense	22,354	25,108	38,684	48,334
Excess tax benefit from share-based compensation	-	(883)	-	(1,677)
Impairment, restructuring and other charges	-	549	7,133	4,483
Other non-cash charges	3,155	1,892	(967)	7,284
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(38,793)	(24,935)	(27,960)	252,002
Inventory	21,239	(99,997)	61,548	(240,359)
Other assets	5,137	(159,556)	225,520	(49,575)
Accounts payable trade	(12,226)	5,125	(124,686)	(47,889)
Accounts payable to related parties	(53,108)	(29,976)	(123,263)	(26,255)
Other liabilities	(71,284)	(52,920)	(154,355)	(145,476)
Total adjustments	<u>(76,794)</u>	<u>(258,892)</u>	<u>16,940</u>	<u>(51,219)</u>
Net cash provided by (used in) operating activities	<u>(24,287)</u>	<u>(332,646)</u>	<u>(138,548)</u>	<u>(114,013)</u>
<b>Cash flows from investing activities:</b>				
Purchases of short and long-term investments	(367,171)	(537,265)	(536,109)	(892,220)
Proceeds from sale of short and long-term investments	153,655	294,532	575,767	728,896
Maturities of short and long-term investments	51,010	162,514	87,640	352,563
Acquisition of property and equipment, net	(16,170)	(50,138)	(32,667)	(106,912)
Investment in Flash Alliance Ltd.	-	(96,705)	-	(96,705)
Distribution from FlashVision Ltd.	-	28,987	12,713	28,987
Issuance of notes receivable from Flash Partners Ltd. and Flash Alliance Ltd.	(51,573)	-	(377,923)	(37,418)
Proceeds from notes receivable from Flash Partners Ltd. and Flash Alliance Ltd.	53,079	-	330,149	-
Purchased technology and other assets	(7,500)	(3,000)	(6,290)	(1,875)
Acquisition of MusicGremlin, Inc.	-	(4,528)	-	(4,528)
Net cash provided by (used in) investing activities	<u>(184,670)</u>	<u>(205,603)</u>	<u>53,280</u>	<u>(29,212)</u>
<b>Cash flows from financing activities:</b>				
Repayment of debt financing	-	-	-	(9,785)
Proceeds from employee stock programs	1,705	2,913	6,275	9,350
Excess tax benefit from share-based compensation	-	883	-	1,677
Net cash provided by (used in) financing activities	<u>1,705</u>	<u>3,796</u>	<u>6,275</u>	<u>1,242</u>
Effect of changes in foreign currency exchange rates on cash	<u>1,700</u>	<u>(1,254)</u>	<u>1,459</u>	<u>(2,188)</u>
Net decrease in cash and cash equivalents	(205,552)	(535,707)	(77,534)	(144,171)
Cash and cash equivalents at beginning of period	1,090,079	1,225,285	962,061	833,749
Cash and cash equivalents at end of period	<u>\$ 884,527</u>	<u>\$ 689,578</u>	<u>\$ 884,527</u>	<u>\$ 689,578</u>

<sup>(1)</sup> As adjusted for the adoption of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including*