

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

	Three months ended		Six months ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Revenues:				
Product	\$ 719,991	\$ 636,675	\$ 1,409,348	\$ 1,174,403
License and royalty	107,041	82,510	203,770	168,042
Total revenues	<u>827,032</u>	<u>719,185</u>	<u>1,613,118</u>	<u>1,342,445</u>
Cost of product revenues	588,736	430,177	1,158,824	815,044
Amortization of acquisition-related intangible assets	14,583	-	35,645	-
Total cost of product revenues	<u>603,319</u>	<u>430,177</u>	<u>1,194,469</u>	<u>815,044</u>
Gross profits	<u>223,713</u>	<u>289,008</u>	<u>418,649</u>	<u>527,401</u>
Operating expenses:				
Research and development	101,185	73,785	196,825	137,547
Sales and marketing	60,517	45,067	116,723	88,442
General and administrative	41,165	37,182	88,156	67,198
Restructuring	212	-	6,728	-
Write-off of acquired in-process technology	-	-	-	39,600
Amortization of acquisition-related intangible assets	7,050	4,432	16,150	8,147
Total operating expenses	<u>210,129</u>	<u>160,466</u>	<u>424,582</u>	<u>340,934</u>
Operating income (loss)	13,584	128,542	(5,933)	186,467
Total other income	<u>38,556</u>	<u>22,013</u>	<u>74,815</u>	<u>40,477</u>
Income before taxes	52,140	150,555	68,882	226,944
Provision for income taxes	<u>23,605</u>	<u>54,914</u>	<u>35,762</u>	<u>96,188</u>
Income after taxes	28,535	95,641	33,120	130,756
Minority interest	51	-	5,211	-
Net income	<u>\$ 28,484</u>	<u>\$ 95,641</u>	<u>\$ 27,909</u>	<u>\$ 130,756</u>
Net income per share:				
Basic	\$ 0.12	\$ 0.49	\$ 0.12	\$ 0.67
Diluted	\$ 0.12	\$ 0.47	\$ 0.12	\$ 0.65
Shares used in computing net income per share:				
Basic	227,959	195,527	227,707	194,302
Diluted	236,036	202,980	235,951	202,522

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

	Three months ended		Six months ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME	\$ 28,484	\$ 95,641	\$ 27,909	\$ 130,756
Adjustments:				
Share-based compensation (a)	36,971	25,870	68,190	44,656
Amortization of acquisition-related intangible assets (c)	21,633	4,432	51,795	8,147
Inventory step-up expense related to msystems acquisition (d)	2,119	-	7,066	-
Write-off of acquired in-process technology (b)	-	-	-	39,600
Income tax adjustments (e)	(17,364)	(8,385)	(38,283)	(15,583)
NON-GAAP NET INCOME	<u>\$ 71,843</u>	<u>\$ 117,558</u>	<u>\$ 116,677</u>	<u>\$ 207,576</u>
GAAP COST OF PRODUCT REVENUES	\$ 603,319	\$ 430,177	\$ 1,194,469	\$ 815,044
Share-based compensation (a)	(3,307)	(2,478)	(6,521)	(2,478)
Amortization of acquisition-related intangible assets (c)	(14,583)	-	(35,645)	-
Inventory step-up expense related to msystems acquisition (d)	(2,119)	-	(7,066)	-
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 583,310</u>	<u>\$ 427,699</u>	<u>\$ 1,145,237</u>	<u>\$ 812,566</u>
GAAP GROSS PROFIT	\$ 223,713	\$ 289,008	\$ 418,649	\$ 527,401
Share-based compensation (a)	3,307	2,478	6,521	2,478
Amortization of acquisition-related intangible assets (c)	14,583	-	35,645	-
Inventory step-up expense related to msystems acquisition (d)	2,119	-	7,066	-
NON-GAAP GROSS PROFIT	<u>\$ 243,722</u>	<u>\$ 291,486</u>	<u>\$ 467,881</u>	<u>\$ 529,879</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 101,185	\$ 73,785	\$ 196,825	\$ 137,547
Share-based compensation (a)	(13,013)	(10,421)	(25,700)	(19,207)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 88,172</u>	<u>\$ 63,364</u>	<u>\$ 171,125</u>	<u>\$ 118,340</u>
GAAP SALES AND MARKETING EXPENSES	\$ 60,517	\$ 45,067	\$ 116,723	\$ 88,442
Share-based compensation (a)	(10,361)	(5,125)	(17,284)	(9,164)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 50,156</u>	<u>\$ 39,942</u>	<u>\$ 99,439</u>	<u>\$ 79,278</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 41,165	\$ 37,182	\$ 88,156	\$ 67,198
Share-based compensation (a)	(10,290)	(7,846)	(18,685)	(13,807)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 30,875</u>	<u>\$ 29,336</u>	<u>\$ 69,471</u>	<u>\$ 53,391</u>
GAAP TOTAL OPERATING EXPENSES	\$ 210,129	\$ 160,466	\$ 424,582	\$ 340,934
Share-based compensation (a)	(33,664)	(23,392)	(61,669)	(42,178)
Write-off of acquired in-process technology (b)	-	-	-	(39,600)
Amortization of acquisition-related intangible assets (c)	(7,050)	(4,432)	(16,150)	(8,147)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 169,415</u>	<u>\$ 132,642</u>	<u>\$ 346,763</u>	<u>\$ 251,009</u>
GAAP OPERATING INCOME (LOSS)	\$ 13,584	\$ 128,542	\$ (5,933)	\$ 186,467
Cost of goods sold adjustments (a) (c) (d)	20,009	2,478	49,232	2,478
Operating expense adjustments (a) (b) (c)	40,714	27,824	77,819	89,925
NON-GAAP OPERATING INCOME	<u>\$ 74,307</u>	<u>\$ 158,844</u>	<u>\$ 121,118</u>	<u>\$ 278,870</u>
GAAP NET INCOME	\$ 28,484	\$ 95,641	\$ 27,909	\$ 130,755
Cost of goods sold adjustments (a) (c) (d)	20,009	2,478	49,232	2,478
Operating expense adjustments (a) (b) (c)	40,714	27,824	77,819	89,925
Income tax adjustments (e)	(17,364)	(8,385)	(38,283)	(15,583)
NON-GAAP NET INCOME	<u>\$ 71,843</u>	<u>\$ 117,558</u>	<u>\$ 116,677</u>	<u>\$ 207,575</u>
Diluted net income per share:				
GAAP	\$ 0.12	\$ 0.47	\$ 0.12	\$ 0.65
Non-GAAP	\$ 0.30	\$ 0.58	\$ 0.49	\$ 1.02
Shares used in computing diluted net income per share:				
GAAP	236,036	202,980	235,951	202,522
Non-GAAP	236,855	204,126	236,649	203,716

SanDisk Corporation
Reconciliation of GAAP to Non-GAAP Operating Results (*)

(*) 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 record for share-based 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 acquisition (January 2006) and 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.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(In thousands)

ASSETS	July 1, 2007 (unaudited)	April 1, 2007 (unaudited)	December 31, 2006
Current Assets:			
Cash and cash equivalents	\$ 1,124,213	\$ 1,811,109	\$ 1,580,700
Short-term investments	1,787,022	1,169,795	1,251,493
Accounts receivable from product revenues, net	311,705	144,228	611,740
Inventory	601,372	594,156	495,984
Deferred taxes	176,480	175,770	176,007
Other current assets	246,745	162,422	125,937
Total current assets	4,247,537	4,057,480	4,241,861
Long-term investments	330,020	527,363	457,184
Property and equipment, net	341,829	328,645	317,965
Notes receivable and investments in flash ventures	531,684	442,884	462,307
Deferred taxes	113,788	95,366	102,100
Goodwill	849,907	852,862	910,254
Intangibles, net	354,079	376,827	389,078
Other non-current assets	59,855	68,783	87,034
Total Assets	\$ 6,828,699	\$ 6,750,210	\$ 6,967,783
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 190,240	\$ 188,680	\$ 261,870
Accounts payable to related parties	141,041	159,710	139,627
Other current accrued liabilities	189,130	162,687	311,000
Deferred income on shipments to distributors and retailers and deferred revenue	143,587	99,273	183,950
Total current liabilities	663,998	610,350	896,447
Convertible long-term debt	1,225,000	1,225,000	1,225,000
Non-current liabilities and deferred revenue	130,552	115,269	72,226
Total Liabilities	2,019,550	1,950,619	2,193,673
Minority interest	1,207	3,651	5,976
Stockholders' Equity:			
Common stock	3,722,400	3,686,562	3,657,121
Retained earnings	1,091,752	1,099,580	1,105,520
Accumulated other comprehensive income (loss)	(6,210)	9,798	5,493
Total stockholders' equity	4,807,942	4,795,940	4,768,134
Total Liabilities and Stockholders' Equity	\$ 6,828,699	\$ 6,750,210	\$ 6,967,783

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

	Three months ended		Six months ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
Cash flows from operating activities:				
Net income	\$ 28,484	\$ 95,641	\$ 27,909	\$ 130,756
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred taxes	24,329	(3,939)	35,760	(17,395)
Loss (gain) investment	1,637	(602)	(567)	(1,195)
Depreciation and amortization	64,137	31,269	129,233	57,666
Provision for doubtful accounts	625	1,527	1,538	1,001
Deferred share-based compensation	36,971	25,903	68,190	44,688
Tax benefit from share-based compensation	(5,247)	(19,114)	(11,508)	(61,023)
Write-off of acquired in-process technology	-	-	-	39,600
Other non-cash charges	3,827	(3,536)	8,576	(4,744)
Changes in operating assets and liabilities:				
Accounts receivable	(168,103)	(67,498)	298,927	23,048
Inventories	(6,454)	35,508	(104,563)	(39,976)
Other assets	(93,601)	(68,324)	(30,176)	(8,743)
Accounts payable trade	1,535	(65,623)	(71,698)	(123,758)
Accounts payable to related parties	(11,668)	6,857	10,879	13,065
Other liabilities	33,077	91,270	(197,702)	58,798
Total adjustments	<u>(118,935)</u>	<u>(36,302)</u>	<u>136,889</u>	<u>(18,968)</u>
Net cash provided by (used in) operating activities	<u>(90,451)</u>	<u>59,339</u>	<u>164,798</u>	<u>111,788</u>
Cash flows from investing activities:				
Purchases of short and long-term investments	(1,054,695)	(685,531)	(1,591,857)	(805,300)
Proceeds from sale and maturities of short and long-term investments	655,536	220,782	1,204,682	375,446
Investment in Flash Partners and Flash Alliance	-	(84,338)	-	(127,919)
Acquisition of capital equipment, net	(54,002)	(37,125)	(97,801)	(89,722)
Notes receivable from FlashVision	12,735	-	37,512	-
Notes receivable from Flash Partners	(123,305)	(95,445)	(123,305)	(95,445)
Purchased technology and other assets	-	-	(13,240)	-
Cash acquired in business combination, net of acquisition costs	-	-	-	9,432
Net cash used in investing activities	<u>(563,731)</u>	<u>(681,657)</u>	<u>(584,009)</u>	<u>(733,508)</u>
Cash flows from financing activities:				
Proceeds from issuance of convertible notes, net of issuance costs	-	1,125,500	-	1,125,500
Purchase of convertible bond hedge	-	(386,090)	-	(386,090)
Proceeds from issuance of warrants	-	308,672	-	308,672
Proceeds from debt financing	3,791	-	3,791	-
Proceeds from employee stock programs	15,732	22,789	54,102	68,850
Distribution to minority interest	(2,395)	-	(9,880)	-
Tax benefit from share-based compensation	5,247	19,114	11,508	61,023
Share repurchase programs	(55,321)	-	(97,417)	-
Net cash provided by (used in) financing activities	<u>(32,946)</u>	<u>1,089,985</u>	<u>(37,896)</u>	<u>1,177,955</u>
Effect of changes in foreign currency exchange rates on cash	<u>232</u>	<u>247</u>	<u>620</u>	<u>186</u>
Net increase (decrease) in cash and cash equivalents	(686,896)	467,914	(456,487)	556,421
Cash and cash equivalents at beginning of period	1,811,109	850,565	1,580,700	762,058
Cash and cash equivalents at end of period	<u>\$ 1,124,213</u>	<u>\$ 1,318,479</u>	<u>\$ 1,124,213</u>	<u>\$ 1,318,479</u>