

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>October 2, 2011</u>	<u>October 3, 2010</u>	<u>October 2, 2011</u>	<u>October 3, 2010</u>
Revenues:				
Product	\$ 1,321,904	\$ 1,137,593	\$ 3,814,111	\$ 3,222,103
License and royalty	94,128	96,080	271,114	277,301
Total revenues	<u>1,416,032</u>	<u>1,233,673</u>	<u>4,085,225</u>	<u>3,499,404</u>
Cost of product revenues	790,465	591,296	2,281,264	1,804,203
Amortization of acquisition-related intangible assets	13,186	3,132	26,556	9,396
Total cost of product revenues	<u>803,651</u>	<u>594,428</u>	<u>2,307,820</u>	<u>1,813,599</u>
Gross profit	612,381	639,245	1,777,405	1,685,805
Operating expenses:				
Research and development	135,271	111,518	400,145	309,970
Sales and marketing	48,538	50,390	144,195	150,985
General and administrative	40,567	44,524	116,020	118,647
Amortization of acquisition-related intangible assets	1,878	1,089	2,608	1,672
Total operating expenses	<u>226,254</u>	<u>207,521</u>	<u>662,968</u>	<u>581,274</u>
Operating income	386,127	431,724	1,114,437	1,104,531
Other income (expense)	<u>(23,578)</u>	<u>(3,168)</u>	<u>(56,217)</u>	<u>5,794</u>
Income before income taxes	362,549	428,556	1,058,220	1,110,325
Provision for income taxes	<u>129,296</u>	<u>106,464</u>	<u>352,453</u>	<u>295,648</u>
Net income	<u>\$ 233,253</u>	<u>\$ 322,092</u>	<u>\$ 705,767</u>	<u>\$ 814,677</u>
Net income per share:				
Basic	\$ 0.97	\$ 1.38	\$ 2.96	\$ 3.52
Diluted	\$ 0.96	\$ 1.34	\$ 2.90	\$ 3.41
Shares used in computing net income per share:				
Basic	239,836	233,918	238,720	231,631
Diluted	243,680	240,717	243,782	239,249

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

	Three months ended		Nine months ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
<b>SUMMARY RECONCILIATION OF NET INCOME</b>				
<b>GAAP NET INCOME</b>	\$ 233,253	\$ 322,092	\$ 705,767	\$ 814,677
Share-based compensation (a)	15,729	20,944	44,678	52,791
Amortization of acquisition-related intangible assets (b)	15,064	4,221	29,164	11,068
Convertible debt interest (c)	42,840	17,983	90,038	46,112
Income tax adjustments (d)	(14,644)	(54,387)	(48,780)	(130,953)
<b>NON-GAAP NET INCOME</b>	<u>\$ 292,242</u>	<u>\$ 310,853</u>	<u>\$ 820,867</u>	<u>\$ 793,695</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 803,651	\$ 594,428	\$ 2,307,820	\$ 1,813,599
Share-based compensation (a)	(1,284)	(1,205)	(3,316)	(4,972)
Amortization of acquisition-related intangible assets (b)	(13,186)	(3,132)	(26,556)	(9,396)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 789,181</u>	<u>\$ 590,091</u>	<u>\$ 2,277,948</u>	<u>\$ 1,799,231</u>
<b>GAAP GROSS PROFIT</b>	\$ 612,381	\$ 639,245	\$ 1,777,405	\$ 1,685,805
Share-based compensation (a)	1,284	1,205	3,316	4,972
Amortization of acquisition-related intangible assets (b)	13,186	3,132	26,556	9,396
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 626,851</u>	<u>\$ 643,582</u>	<u>\$ 1,807,277</u>	<u>\$ 1,700,173</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 135,271	\$ 111,518	\$ 400,145	\$ 309,970
Share-based compensation (a)	(8,320)	(6,629)	(23,248)	(19,975)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 126,951</u>	<u>\$ 104,889</u>	<u>\$ 376,897</u>	<u>\$ 289,995</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 48,538	\$ 50,390	\$ 144,195	\$ 150,985
Share-based compensation (a)	(2,704)	(2,959)	(7,746)	(8,300)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 45,834</u>	<u>\$ 47,431</u>	<u>\$ 136,449</u>	<u>\$ 142,685</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 40,567	\$ 44,524	\$ 116,020	\$ 118,647
Share-based compensation (a)	(3,421)	(10,151)	(10,368)	(19,544)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 37,146</u>	<u>\$ 34,373</u>	<u>\$ 105,652</u>	<u>\$ 99,103</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 226,254	\$ 207,521	\$ 662,968	\$ 581,274
Share-based compensation (a)	(14,445)	(19,739)	(41,362)	(47,819)
Amortization of acquisition-related intangible assets (b)	(1,878)	(1,089)	(2,608)	(1,672)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 209,931</u>	<u>\$ 186,693</u>	<u>\$ 618,998</u>	<u>\$ 531,783</u>
<b>GAAP OPERATING INCOME</b>	\$ 386,127	\$ 431,724	\$ 1,114,437	\$ 1,104,531
Cost of product revenues adjustments (a) (b)	14,470	4,337	29,872	14,368
Operating expense adjustments (a) (b)	16,323	20,828	43,970	49,491
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 416,920</u>	<u>\$ 456,889</u>	<u>\$ 1,188,279</u>	<u>\$ 1,168,390</u>
<b>GAAP OTHER INCOME (EXPENSE)</b>	\$ (23,578)	\$ (3,168)	\$ (56,217)	\$ 5,794
Convertible debt interest (c)	42,840	17,983	90,038	46,112
<b>NON-GAAP OTHER INCOME (EXPENSE)</b>	<u>\$ 19,262</u>	<u>\$ 14,815</u>	<u>\$ 33,821</u>	<u>\$ 51,906</u>
<b>GAAP NET INCOME</b>	\$ 233,253	\$ 322,092	\$ 705,767	\$ 814,677
Cost of product revenues adjustments (a) (b)	14,470	4,337	29,872	14,368
Operating expense adjustments (a) (b)	16,323	20,828	43,970	49,491
Convertible debt interest (c)	42,840	17,983	90,038	46,112
Income tax adjustments (d)	(14,644)	(54,387)	(48,780)	(130,953)
<b>NON-GAAP NET INCOME</b>	<u>\$ 292,242</u>	<u>\$ 310,853</u>	<u>\$ 820,867</u>	<u>\$ 793,695</u>
Diluted net income per share:				
GAAP	\$ 0.96	\$ 1.34	\$ 2.90	\$ 3.41
Non-GAAP	\$ 1.20	\$ 1.30	\$ 3.37	\$ 3.33
Shares used in computing diluted net income per share:				
GAAP	243,680	240,717	243,782	239,249
Non-GAAP	243,947	239,798	243,828	238,302

**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, MusicGremlin, Inc. in June 2008 and Pliant Technology, Inc. in May 2011, 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 technology, developed technology, customer relationships and trademarks related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), MusicGremlin, Inc. (June 2008) and Pliant Technology, Inc. (May 2011).
- (c) Incremental interest expense relating to the non-cash economic interest expense associated with the Company's 1% Sr. Convertible Note due 2013 and 1.5% Sr. Convertible Note due 2017, and the acceleration of non-cash economic interest expense due to the repurchase of a portion of the 1% Sr. Convertible Note due 2013.
- (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)

	<b>October 2, 2011</b>	<b>January 2, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,074,850	\$ 829,149
Short-term marketable securities	1,478,702	2,018,565
Accounts receivable from product revenues, net	464,647	367,784
Inventory	684,628	509,585
Deferred taxes	131,811	104,582
Other current assets	138,161	203,027
Total current assets	3,972,799	4,032,692
Long-term marketable securities	2,714,663	2,494,972
Property and equipment, net	297,216	266,721
Notes receivable and investments in flash ventures with Toshiba	2,116,262	1,733,491
Deferred taxes	162,083	149,486
Goodwill	154,899	—
Intangible assets, net	308,909	37,404
Other non-current assets	134,064	61,944
Total assets	\$ 9,860,895	\$ 8,776,710
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable trade	\$ 223,241	\$ 173,259
Accounts payable to related parties	258,821	241,744
Other current accrued liabilities	417,902	284,709
Deferred income on shipments to distributors and retailers and deferred revenue	242,416	260,395
Total current liabilities	1,142,380	960,107
Convertible long-term debt	1,583,158	1,711,032
Non-current liabilities	419,848	326,176
Total liabilities	3,145,386	2,997,315
<b>EQUITY</b>		
Stockholders' equity:		
Common stock	4,849,777	4,709,743
Retained earnings	1,518,420	812,653
Accumulated other comprehensive income	350,837	260,228
Total stockholders' equity	6,719,034	5,782,624
Non-controlling interests	(3,525)	(3,229)
Total equity	6,715,509	5,779,395
Total liabilities and equity	\$ 9,860,895	\$ 8,776,710

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>October 2, 2011</u>	<u>October 3, 2010</u>	<u>October 2, 2011 <sup>(1)</sup></u>	<u>October 3, 2010</u>
<b>Cash flows from operating activities:</b>				
Net income	\$ 233,253	\$ 322,092	\$ 705,767	\$ 814,677
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	(70,618)	(16,940)	(77,842)	(95,849)
Depreciation	27,322	32,970	84,959	102,075
Amortization	44,685	24,761	118,035	65,349
Provision for doubtful accounts	1,025	(205)	(1,929)	(2,804)
Share-based compensation expense	15,729	20,944	44,678	52,791
Excess tax benefit from share-based compensation	(4,009)	(6,232)	(15,820)	(19,960)
Impairments, restructuring and other	(5,673)	(11,349)	(25,118)	(27,587)
Other non-operating	22,088	6,769	63,771	25,708
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(88,570)	5,663	(89,157)	(104,272)
Inventory	(130,797)	(33,256)	(164,798)	66,974
Other assets	1,926	(21,928)	(69,443)	1,649
Accounts payable trade	41,825	36,431	38,368	17,359
Accounts payable to related parties	(16,790)	(33,137)	17,077	(18,184)
Other liabilities	104,939	52,567	215,672	214,569
Total adjustments	<u>(56,918)</u>	<u>57,058</u>	<u>138,453</u>	<u>277,818</u>
Net cash provided by operating activities	<u>176,335</u>	<u>379,150</u>	<u>844,220</u>	<u>1,092,495</u>
<b>Cash flows from investing activities:</b>				
Purchases of short and long-term marketable securities	(891,345)	(2,788,994)	(2,500,913)	(4,231,953)
Proceeds from sale of short and long-term marketable securities	804,576	944,838	2,276,356	1,636,549
Proceeds from maturities of short and long-term marketable securities	182,110	148,790	505,920	317,805
Acquisition of property and equipment	(52,914)	(22,314)	(114,267)	(59,728)
Investment in Flash Ventures	(64,983)	—	(83,316)	—
Distribution from FlashVision Ltd.	—	—	—	122
Notes receivable issuance to Flash Ventures	(32,519)	—	(399,281)	—
Notes receivable proceeds from Flash Ventures	163,420	59,664	248,516	59,664
Proceeds from sale of assets	—	—	—	17,767
Purchased technology and other assets	—	—	(100,000)	(1,982)
Acquisition of Pliant Technology, Inc., net of cash acquired	—	—	(317,649)	—
Net cash provided by (used in) investing activities	<u>108,345</u>	<u>(1,658,016)</u>	<u>(484,634)</u>	<u>(2,261,756)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of convertible senior notes, net of issuance costs	—	982,500	—	982,500
Proceeds from sale (purchase) of convertible bond hedge	1,494	(292,900)	1,494	(292,900)
Proceeds from sale (purchase) of warrants	(1,158)	188,100	(1,158)	188,100
Repayment of debt financing	(211,441)	—	(211,441)	(75,000)
Proceeds from employee stock programs	23,185	23,615	81,791	107,971
Excess tax benefit from share-based compensation	4,009	6,232	15,820	19,960
Net cash provided by (used in) financing activities	<u>(183,911)</u>	<u>907,547</u>	<u>(113,494)</u>	<u>930,631</u>
Effect of changes in foreign currency exchange rates on cash	<u>(773)</u>	<u>(304)</u>	<u>(391)</u>	<u>3,654</u>
Net increase (decrease) in cash and cash equivalents	99,996	(371,623)	245,701	(234,976)
Cash and cash equivalents at beginning of period	974,854	1,237,011	829,149	1,100,364
Cash and cash equivalents at end of period	<u>\$ 1,074,850</u>	<u>\$ 865,388</u>	<u>\$ 1,074,850</u>	<u>\$ 865,388</u>

<sup>(1)</sup> Consideration provided to Pliant Technology, Inc. of \$15 million during the first quarter of fiscal year 2011 has been reclassified from 'Purchased technology and other assets' to 'Acquisition of Pliant Technology, Inc., net of cash acquired'.