

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

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenues:				
Product	\$ 918,810	\$ 673,189	\$ 2,328,158	\$ 1,847,592
License and royalty	118,613	78,196	322,383	246,238
Total revenues	<u>1,037,423</u>	<u>751,385</u>	<u>2,650,541</u>	<u>2,093,830</u>
Cost of product revenues	680,521	455,345	1,839,345	1,270,389
Amortization of acquisition-related intangible assets	14,582	-	50,227	-
Total cost of product revenues	<u>695,103</u>	<u>455,345</u>	<u>1,889,572</u>	<u>1,270,389</u>
Gross profit	<u>342,320</u>	<u>296,040</u>	<u>760,969</u>	<u>823,441</u>
Operating expenses:				
Research and development	110,533	78,073	307,358	215,620
Sales and marketing	72,455	44,961	189,178	133,403
General and administrative	45,581	40,247	133,737	107,445
Restructuring	-	-	6,728	-
Write-off of acquired in-process technology	-	-	-	39,600
Amortization of acquisition-related intangible assets	4,600	4,432	20,750	12,579
Total operating expenses	<u>233,169</u>	<u>167,713</u>	<u>657,751</u>	<u>508,647</u>
Operating income	109,151	128,327	103,218	314,794
Total other income	<u>29,200</u>	<u>32,223</u>	<u>104,015</u>	<u>72,700</u>
Income before taxes	138,351	160,550	207,233	387,494
Provision for income taxes	<u>53,713</u>	<u>57,269</u>	<u>89,475</u>	<u>153,457</u>
Income after taxes	84,638	103,281	117,758	234,037
Minority interest	-	-	5,211	-
<b>Net income</b>	<b><u>\$ 84,638</u></b>	<b><u>\$ 103,281</u></b>	<b><u>\$ 112,547</u></b>	<b><u>\$ 234,037</u></b>
Net income per share:				
Basic	\$ 0.37	\$ 0.53	\$ 0.49	\$ 1.20
Diluted	\$ 0.36	\$ 0.51	\$ 0.48	\$ 1.15
Shares used in computing net income per share:				
Basic	228,689	196,317	228,034	194,974
Diluted	236,930	202,747	235,992	202,660

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

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
<b>SUMMARY RECONCILIATION OF NET INCOME</b>				
<b>GAAP NET INCOME</b>	\$ 84,638	\$ 103,281	\$ 112,547	\$ 234,037
Adjustments:				
Share-based compensation (a)	34,127	25,193	102,317	69,849
Amortization of acquisition-related intangible assets (c)	19,182	4,432	70,977	12,579
Inventory step-up expense related to msystems acquisition (d)	-	-	7,066	-
Write-off of acquired in-process technology (b)	-	-	-	39,600
Income tax adjustments (e)	(8,144)	(9,292)	(46,427)	(24,875)
<b>NON-GAAP NET INCOME</b>	<u>\$ 129,803</u>	<u>\$ 123,614</u>	<u>\$ 246,480</u>	<u>\$ 331,190</u>
<b>GAAP COST OF PRODUCT REVENUES</b>				
	\$ 695,103	\$ 455,345	\$ 1,889,572	\$ 1,270,389
Share-based compensation (a)	(4,162)	(2,621)	(10,683)	(5,099)
Amortization of acquisition-related intangible assets (c)	(14,582)	-	(50,227)	-
Inventory step-up expense related to msystems acquisition (d)	-	-	(7,066)	-
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 676,359</u>	<u>\$ 452,724</u>	<u>\$ 1,821,596</u>	<u>\$ 1,265,290</u>
<b>GAAP GROSS PROFIT</b>				
	\$ 342,320	\$ 296,040	\$ 760,969	\$ 823,441
Share-based compensation (a)	4,162	2,621	10,683	5,099
Amortization of acquisition-related intangible assets (c)	14,582	-	50,227	-
Inventory step-up expense related to msystems acquisition (d)	-	-	7,066	-
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 361,064</u>	<u>\$ 298,661</u>	<u>\$ 828,945</u>	<u>\$ 828,540</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>				
	\$ 110,533	\$ 78,073	\$ 307,358	\$ 215,620
Share-based compensation (a)	(12,528)	(10,270)	(38,228)	(29,477)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 98,005</u>	<u>\$ 67,803</u>	<u>\$ 269,130</u>	<u>\$ 186,143</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>				
	\$ 72,455	\$ 44,961	\$ 189,178	\$ 133,403
Share-based compensation (a)	(7,956)	(4,623)	(25,240)	(13,786)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 64,499</u>	<u>\$ 40,338</u>	<u>\$ 163,938</u>	<u>\$ 119,617</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>				
	\$ 45,581	\$ 40,247	\$ 133,737	\$ 107,445
Share-based compensation (a)	(9,481)	(7,679)	(28,166)	(21,487)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 36,100</u>	<u>\$ 32,568</u>	<u>\$ 105,571</u>	<u>\$ 85,958</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>				
	\$ 233,169	\$ 167,713	\$ 657,751	\$ 508,647
Share-based compensation (a)	(29,965)	(22,572)	(91,634)	(64,750)
Write-off of acquired in-process technology (b)	-	-	-	(39,600)
Amortization of acquisition-related intangible assets (c)	(4,600)	(4,432)	(20,750)	(12,579)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 198,604</u>	<u>\$ 140,709</u>	<u>\$ 545,367</u>	<u>\$ 391,718</u>
<b>GAAP OPERATING INCOME</b>				
	\$ 109,151	\$ 128,327	\$ 103,218	\$ 314,794
Cost of product revenues adjustments (a) (c) (d)	18,744	2,621	67,976	5,099
Operating expense adjustments (a) (b) (c)	34,565	27,004	112,384	116,929
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 162,460</u>	<u>\$ 157,952</u>	<u>\$ 283,578</u>	<u>\$ 436,822</u>
<b>GAAP NET INCOME</b>				
	\$ 84,638	\$ 103,281	\$ 112,547	\$ 234,037
Cost of product revenues adjustments (a) (c) (d)	18,744	2,621	67,976	5,099
Operating expense adjustments (a) (b) (c)	34,565	27,004	112,384	116,929
Income tax adjustments (e)	(8,144)	(9,292)	(46,427)	(24,875)
<b>NON-GAAP NET INCOME</b>	<u>\$ 129,803</u>	<u>\$ 123,614</u>	<u>\$ 246,480</u>	<u>\$ 331,190</u>
Diluted net income per share:				
GAAP	\$ 0.36	\$ 0.51	\$ 0.48	\$ 1.15
Non-GAAP	\$ 0.54	\$ 0.61	\$ 1.04	\$ 1.63
Shares used in computing diluted net income per share:				
GAAP	236,930	202,747	235,992	202,660
Non-GAAP	238,643	203,757	237,313	203,744

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 mo and estimates published by many analysts who follow the Company. For example, because the non-GAAP results exclude the expenses we recorded for s 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 that 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 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)

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 970,920	\$ 1,580,700
Short-term investments	1,334,677	1,251,493
Accounts receivable from product revenues, net	438,016	611,740
Inventory	545,199	495,984
Deferred taxes	174,352	176,007
Other current assets	142,496	125,937
Total current assets	3,605,660	4,241,861
Long-term investments	923,965	457,184
Property and equipment, net	383,943	317,965
Notes receivable and investments in flash ventures	900,382	462,307
Deferred taxes	109,944	102,100
Goodwill	847,977	910,254
Intangibles, net	342,580	389,078
Other non-current assets	66,255	87,034
<b>Total Assets</b>	<b>\$ 7,180,706</b>	<b>\$ 6,967,783</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 223,343	\$ 261,870
Accounts payable to related parties	163,869	139,627
Other current accrued liabilities	226,410	311,000
Deferred income on shipments to distributors and retailers and deferred revenue	204,653	183,950
Total current liabilities	818,275	896,447
Convertible long-term debt	1,225,000	1,225,000
Non-current liabilities and deferred revenue	128,004	72,226
Total liabilities	2,171,279	2,193,673
Minority interest	1,067	5,976
Stockholders' Equity:		
Common stock	3,836,109	3,657,121
Retained earnings	1,151,915	1,105,520
Accumulated other comprehensive income	20,336	5,493
Total stockholders' equity	5,008,360	4,768,134
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 7,180,706</b>	<b>\$ 6,967,783</b>

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

	Three months ended		Nine months ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
<b>Cash flows from operating activities:</b>				
<b>Net income</b>	\$ 84,638	\$ 103,281	\$ 112,547	\$ 234,037
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Deferred and other taxes	53,715	(6,626)	89,475	(24,021)
Gain on equity investments	(2,134)	(169)	(2,701)	(1,364)
Depreciation and amortization	67,211	32,043	196,444	89,709
Provision for doubtful accounts	1,439	1,759	2,977	2,760
Share-based compensation expense	34,127	25,160	102,317	69,848
Excess tax benefit from share-based compensation	(4,206)	(3,057)	(15,714)	(64,080)
Write-off of acquired in-process technology	-	-	-	39,600
Other non-cash charges (income)	(266)	7,945	2,649	3,201
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(127,750)	5,228	171,177	28,276
Inventory	57,352	(17,789)	(47,211)	(57,765)
Other assets	77,177	55,851	47,001	47,108
Accounts payable trade	33,102	35,395	(38,596)	(88,363)
Accounts payable to related parties	11,634	15,315	22,513	28,380
Other liabilities	52,878	37,039	(139,163)	95,837
Total adjustments	254,279	188,094	391,168	169,126
Net cash provided by operating activities	338,917	291,375	503,715	403,163
<b>Cash flows from investing activities:</b>				
Purchases of short and long-term investments	(1,554,027)	(632,895)	(3,145,884)	(1,438,195)
Proceeds from sale and maturities of short and long-term investments	1,430,400	506,326	2,635,082	881,772
Investment in Flash Partners and Flash Alliance	(38,003)	(4,290)	(38,003)	(132,209)
Proceeds from notes receivable	1,125	-	1,125	-
Acquisition of property and equipment, net	(82,102)	(33,721)	(179,903)	(123,443)
Proceeds from notes receivable from FlashVision	-	8,524	37,512	8,524
Issuance of notes receivable to Flash Partners	(286,296)	-	(409,601)	(95,445)
Purchased technology and other assets	(15,688)	-	(28,928)	-
Cash acquired in business combination, net of acquisition costs	-	-	-	9,432
Net cash used in investing activities	(544,591)	(156,056)	(1,128,600)	(889,564)
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of convertible senior notes, net of issuance costs	-	-	-	1,125,500
Purchase of convertible bond hedge	-	-	-	(386,090)
Proceeds from issuance of warrants	-	-	-	308,672
Proceeds from debt financing	4,012	-	7,803	-
Proceeds from employee stock programs	43,208	17,258	97,310	86,108
Distribution to minority interest	-	-	(9,880)	-
Excess tax benefit from share-based compensation	4,206	3,057	15,714	64,080
Share repurchase programs	-	-	(97,417)	-
Net cash provided by financing activities	51,426	20,315	13,530	1,198,270
Effect of changes in foreign currency exchange rates on cash	955	42	1,575	228
Net increase (decrease) in cash and cash equivalents	(153,293)	155,676	(609,780)	712,097
Cash and cash equivalents at beginning of period	1,124,213	1,318,479	1,580,700	762,058
Cash and cash equivalents at end of period	\$ 970,920	\$ 1,474,155	\$ 970,920	\$ 1,474,155
<b>Supplemental disclosures of cash flow information:</b>				
Issuance of stock for acquisition	\$ -	\$ -	\$ -	\$ 260,908