

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

	<u>Three months ended</u>		<u>Twelve months ended</u>	
	<u>January 1, 2012</u>	<u>January 2, 2011</u>	<u>January 1, 2012</u>	<u>January 2, 2011</u>
Revenues:				
Product	\$ 1,473,444	\$ 1,240,827	\$ 5,287,555	\$ 4,462,930
License and royalty	103,476	86,576	374,590	363,877
Total revenues	<u>1,576,920</u>	<u>1,327,403</u>	<u>5,662,145</u>	<u>4,826,807</u>
Cost of product revenues	901,993	747,985	3,183,257	2,552,188
Amortization of acquisition-related intangible assets	13,186	3,133	39,742	12,529
Total cost of product revenues	<u>915,179</u>	<u>751,118</u>	<u>3,222,999</u>	<u>2,564,717</u>
Gross profit	661,741	576,285	2,439,146	2,262,090
Operating expenses:				
Research and development	147,228	112,592	547,373	422,562
Sales and marketing	55,227	58,812	199,422	209,797
General and administrative	41,746	47,838	157,766	166,485
Amortization of acquisition-related intangible assets	1,877	—	4,485	1,672
Total operating expenses	<u>246,078</u>	<u>219,242</u>	<u>909,046</u>	<u>800,516</u>
Operating income	415,663	357,043	1,530,100	1,461,574
Other income (expense)	2,871	(9,935)	(53,346)	(4,141)
Income before income taxes	418,534	347,108	1,476,754	1,457,433
Provision for (benefit from) income taxes	137,311	(138,357)	489,764	157,291
Net income	<u>\$ 281,223</u>	<u>\$ 485,465</u>	<u>\$ 986,990</u>	<u>\$ 1,300,142</u>
Net income per share:				
Basic	\$ 1.16	\$ 2.06	\$ 4.12	\$ 5.59
Diluted	\$ 1.14	\$ 2.01	\$ 4.04	\$ 5.44
Shares used in computing net income per share:				
Basic	241,775	235,231	239,484	232,531
Diluted	246,543	241,034	244,553	238,901

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

	<u>Three months ended</u>		<u>Twelve months ended</u>	
	<u>January 1, 2012</u>	<u>January 2, 2011</u>	<u>January 1, 2012</u>	<u>January 2, 2011</u>
<b>SUMMARY RECONCILIATION OF NET INCOME</b>				
<b>GAAP NET INCOME</b>	\$ 281,223	\$ 485,465	\$ 986,990	\$ 1,300,142
Share-based compensation (a)	18,432	24,799	63,110	77,590
Amortization of acquisition-related intangible assets (b)	15,063	3,133	44,227	14,201
Convertible debt interest (c) (d)	21,316	22,786	111,354	68,898
Income tax adjustments (e)	<u>(18,893)</u>	<u>(229,555)</u>	<u>(67,673)</u>	<u>(360,508)</u>
<b>NON-GAAP NET INCOME</b>	<u>\$ 317,141</u>	<u>\$ 306,628</u>	<u>\$ 1,138,008</u>	<u>\$ 1,100,323</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 915,179	\$ 751,118	\$ 3,222,999	\$ 2,564,717
Share-based compensation (a)	(1,358)	(849)	(4,674)	(5,821)
Amortization of acquisition-related intangible assets (b)	<u>(13,186)</u>	<u>(3,133)</u>	<u>(39,742)</u>	<u>(12,529)</u>
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 900,635</u>	<u>\$ 747,136</u>	<u>\$ 3,178,583</u>	<u>\$ 2,546,367</u>
<b>GAAP GROSS PROFIT</b>	\$ 661,741	\$ 576,285	\$ 2,439,146	\$ 2,262,090
Share-based compensation (a)	1,358	849	4,674	5,821
Amortization of acquisition-related intangible assets (b)	<u>13,186</u>	<u>3,133</u>	<u>39,742</u>	<u>12,529</u>
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 676,285</u>	<u>\$ 580,267</u>	<u>\$ 2,483,562</u>	<u>\$ 2,280,440</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 147,228	\$ 112,592	\$ 547,373	\$ 422,562
Share-based compensation (a)	<u>(10,929)</u>	<u>(6,317)</u>	<u>(34,177)</u>	<u>(26,292)</u>
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 136,299</u>	<u>\$ 106,275</u>	<u>\$ 513,196</u>	<u>\$ 396,270</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 55,227	\$ 58,812	\$ 199,422	\$ 209,797
Share-based compensation (a)	<u>(2,847)</u>	<u>(2,634)</u>	<u>(10,593)</u>	<u>(10,934)</u>
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 52,380</u>	<u>\$ 56,178</u>	<u>\$ 188,829</u>	<u>\$ 198,863</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 41,746	\$ 47,838	\$ 157,766	\$ 166,485
Share-based compensation (a)	<u>(3,298)</u>	<u>(14,999)</u>	<u>(13,666)</u>	<u>(34,543)</u>
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 38,448</u>	<u>\$ 32,839</u>	<u>\$ 144,100</u>	<u>\$ 131,942</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 246,078	\$ 219,242	\$ 909,046	\$ 800,516
Share-based compensation (a)	(17,074)	(23,950)	(58,436)	(71,769)
Amortization of acquisition-related intangible assets (b)	<u>(1,877)</u>	<u>-</u>	<u>(4,485)</u>	<u>(1,672)</u>
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 227,127</u>	<u>\$ 195,292</u>	<u>\$ 846,125</u>	<u>\$ 727,075</u>
<b>GAAP OPERATING INCOME</b>	\$ 415,663	\$ 357,043	\$ 1,530,100	\$ 1,461,574
Cost of product revenues adjustments (a) (b)	14,544	3,982	44,416	18,350
Operating expense adjustments (a) (b)	<u>18,951</u>	<u>23,950</u>	<u>62,921</u>	<u>73,441</u>
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 449,158</u>	<u>\$ 384,975</u>	<u>\$ 1,637,437</u>	<u>\$ 1,553,365</u>
<b>GAAP OTHER INCOME (EXPENSE)</b>	\$ 2,871	\$ (9,935)	\$ (53,346)	\$ (4,141)
Convertible debt interest (c) (d)	<u>21,316</u>	<u>22,786</u>	<u>111,354</u>	<u>68,898</u>
<b>NON-GAAP OTHER INCOME (EXPENSE)</b>	<u>\$ 24,187</u>	<u>\$ 12,851</u>	<u>\$ 58,008</u>	<u>\$ 64,757</u>
<b>GAAP NET INCOME</b>	\$ 281,223	\$ 485,465	\$ 986,990	\$ 1,300,142
Cost of product revenues adjustments (a) (b)	14,544	3,982	44,416	18,350
Operating expense adjustments (a) (b)	18,951	23,950	62,921	73,441
Convertible debt interest (c) (d)	21,316	22,786	111,354	68,898
Income tax adjustments (e)	<u>(18,893)</u>	<u>(229,555)</u>	<u>(67,673)</u>	<u>(360,508)</u>
<b>NON-GAAP NET INCOME</b>	<u>\$ 317,141</u>	<u>\$ 306,628</u>	<u>\$ 1,138,008</u>	<u>\$ 1,100,323</u>
Diluted net income per share:				
GAAP	\$ 1.14	\$ 2.01	\$ 4.04	\$ 5.44
Non-GAAP	\$ 1.29	\$ 1.27	\$ 4.65	\$ 4.60
Shares used in computing diluted net income per share:				
GAAP	246,543	241,034	244,553	238,901
Non-GAAP	246,595	241,059	244,568	239,042

## **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, 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 the convertible debt, non-cash change in fair value of the liability component of the repurchased portion of the 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, non-cash change in fair value of the liability component of the repurchased portion of the 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 Notes due 2013 and 1.5% Sr. Convertible Notes due 2017.
  - (d) Year-to-date fiscal 2011 convertible debt interest includes the non-cash change in fair value of the liability component of the repurchased portion of the 1% Sr. Convertible Notes due 2013.
  - (e) 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)

	<u>January 1, 2012</u>	<u>January 2, 2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,167,496	\$ 829,149
Short-term marketable securities	1,681,492	2,018,565
Accounts receivable from product revenues, net	521,763	367,784
Inventory	678,382	509,585
Deferred taxes	100,409	104,582
Other current assets	206,419	203,027
Total current assets	<u>4,355,961</u>	<u>4,032,692</u>
Long-term marketable securities	2,766,263	2,494,972
Property and equipment, net	344,897	266,721
Notes receivable and investments in flash ventures with Toshiba	1,943,295	1,733,491
Deferred taxes	199,027	149,486
Goodwill	154,899	—
Intangible assets, net	287,691	37,404
Other non-current assets	122,615	61,944
Total assets	<u>\$ 10,174,648</u>	<u>\$ 8,776,710</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable trade	\$ 258,583	\$ 173,259
Accounts payable to related parties	276,275	241,744
Other current accrued liabilities	337,517	284,709
Deferred income on shipments to distributors and retailers and deferred revenue	220,999	260,395
Total current liabilities	<u>1,093,374</u>	<u>960,107</u>
Convertible long-term debt	1,604,911	1,711,032
Non-current liabilities	415,524	326,176
Total liabilities	<u>3,113,809</u>	<u>2,997,315</u>
<b>EQUITY</b>		
Stockholders' equity:		
Common stock	4,934,808	4,709,743
Retained earnings	1,796,849	812,653
Accumulated other comprehensive income	332,701	260,228
Total stockholders' equity	<u>7,064,358</u>	<u>5,782,624</u>
Non-controlling interests	(3,519)	(3,229)
Total equity	<u>7,060,839</u>	<u>5,779,395</u>
Total liabilities and equity	<u>\$ 10,174,648</u>	<u>\$ 8,776,710</u>

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

	Three months ended		Twelve months ended	
	January 1, 2012	January 2, 2011	January 1, 2012	January 2, 2011
<b>Cash flows from operating activities:</b>				
Net income	\$ 281,223	\$ 485,465	\$ 986,990	\$ 1,300,142
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	3,013	(76,478)	(74,829)	(172,327)
Depreciation	30,025	30,743	114,984	132,818
Amortization	43,895	28,612	161,930	93,961
Provision for doubtful accounts	453	229	(1,476)	(2,575)
Share-based compensation expense	18,432	24,799	63,110	77,590
Excess tax benefit from share-based compensation	(9,075)	(9,666)	(24,895)	(29,626)
Impairments, restructuring and other	(24,320)	(13,918)	(49,438)	(41,505)
Other non-operating	22,889	15,346	86,660	41,054
Changes in operating assets and liabilities:				
Accounts receivable from product revenues	(57,569)	(28,207)	(146,726)	(132,479)
Inventory	6,264	17,340	(158,534)	84,314
Other assets	(43,134)	(129,278)	(112,577)	(127,629)
Accounts payable trade	35,343	21,598	73,711	38,957
Accounts payable to related parties	17,454	77,837	34,531	59,653
Other liabilities	(115,341)	(85,025)	100,331	129,544
Total adjustments	(71,671)	(126,068)	66,782	151,750
Net cash provided by operating activities	209,552	359,397	1,053,772	1,451,892
<b>Cash flows from investing activities:</b>				
Purchases of short and long-term marketable securities	(973,002)	(1,571,485)	(3,473,915)	(5,803,438)
Proceeds from sale of short and long-term marketable securities	572,876	1,135,291	2,849,232	2,771,840
Proceeds from maturities of short and long-term marketable securities	128,470	89,196	634,390	407,001
Acquisition of property and equipment	(78,609)	(48,414)	(192,876)	(108,142)
Investment in Flash Ventures	—	—	(83,316)	—
Distribution from FlashVision Ltd.	—	—	—	122
Notes receivable issuance to Flash Ventures	—	(59,880)	(399,281)	(59,880)
Notes receivable proceeds from Flash Ventures	167,872	—	416,388	59,664
Proceeds from sale of assets	—	—	—	17,767
Purchased technology and other assets	—	2,455	(100,000)	473
Acquisition of Pliant Technology, Inc., net of cash acquired	—	—	(317,649)	—
Net cash used in investing activities	(182,393)	(452,837)	(667,027)	(2,714,593)
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of convertible senior notes, net of issuance costs	—	—	—	982,500
Proceeds from sale (purchase) of convertible bond hedge	—	—	1,494	(292,900)
Proceeds from sale (purchase) of warrants	—	—	(1,158)	188,100
Repayment of debt financing	—	—	(211,441)	(75,000)
Proceeds from employee stock programs	61,349	44,872	143,140	152,843
Excess tax benefit from share-based compensation	9,075	9,666	24,895	29,626
Share repurchase program	(4,039)	—	(4,039)	—
Net cash provided by (used in) financing activities	66,385	54,538	(47,109)	985,169
Effect of changes in foreign currency exchange rates on cash	(898)	2,663	(1,289)	6,317
Net increase (decrease) in cash and cash equivalents	92,646	(36,239)	338,347	(271,215)
Cash and cash equivalents at beginning of period	1,074,850	865,388	829,149	1,100,364
Cash and cash equivalents at end of period	\$ 1,167,496	\$ 829,149	\$ 1,167,496	\$ 829,149