

SanDisk Corporation
Reconciliation of GAAP to Non-GAAP Operating Results (1)
(in thousands, except per share amounts, unaudited)

	Three months ended		Twelve months ended	
	December 30, 2007	December 31, 2006	December 30, 2007	December 31, 2006
SUMMARY RECONCILIATION OF NET INCOME				
GAAP NET INCOME (LOSS)	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Adjustments:				
Share-based compensation (a)	30,693	30,793	133,010	100,641
Amortization of acquisition-related intangible assets (c)	19,140	15,221	90,117	27,800
Inventory step-up expense related to msystems acquisition (d)	-	4,471	7,066	4,471
Write-off of acquired in-process technology (b)	-	186,000	-	225,600
Income tax adjustments (e)	5,985	(9,673)	(40,441)	(34,548)
NON-GAAP NET INCOME	<u>\$ 161,628</u>	<u>\$ 191,671</u>	<u>\$ 408,109</u>	<u>\$ 522,860</u>
GAAP COST OF PRODUCT REVENUES	\$ 804,075	\$ 747,663	\$ 2,693,647	\$ 2,018,052
Share-based compensation (a)	(4,060)	(2,892)	(14,743)	(7,991)
Amortization of acquisition-related intangible assets (c)	(14,582)	(10,368)	(64,809)	(10,368)
Inventory step-up expense related to msystems acquisition (d)	-	(4,471)	(7,066)	(4,471)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 785,433</u>	<u>\$ 729,932</u>	<u>\$ 2,607,029</u>	<u>\$ 1,995,222</u>
GAAP GROSS PROFIT	\$ 441,750	\$ 416,032	\$ 1,202,719	\$ 1,239,473
Share-based compensation (a)	4,060	2,892	14,743	7,991
Amortization of acquisition-related intangible assets (c)	14,582	10,368	64,809	10,368
Inventory step-up expense related to msystems acquisition (d)	-	4,471	7,066	4,471
NON-GAAP GROSS PROFIT	<u>\$ 460,392</u>	<u>\$ 433,763</u>	<u>\$ 1,289,337</u>	<u>\$ 1,262,303</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 110,708	\$ 91,246	\$ 418,066	\$ 306,866
Share-based compensation (a)	(10,965)	(11,522)	(49,193)	(40,999)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 99,743</u>	<u>\$ 79,724</u>	<u>\$ 368,873</u>	<u>\$ 265,867</u>
GAAP SALES AND MARKETING EXPENSES	\$ 105,416	\$ 70,003	\$ 294,594	\$ 203,406
Share-based compensation (a)	(6,482)	(7,831)	(31,722)	(21,617)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 98,934</u>	<u>\$ 62,172</u>	<u>\$ 262,872</u>	<u>\$ 181,789</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 47,772	\$ 52,390	\$ 181,509	\$ 159,835
Share-based compensation (a)	(9,186)	(8,548)	(37,352)	(30,034)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 38,586</u>	<u>\$ 43,842</u>	<u>\$ 144,157</u>	<u>\$ 129,801</u>
GAAP TOTAL OPERATING EXPENSES	\$ 268,454	\$ 404,492	\$ 926,205	\$ 913,139
Share-based compensation (a)	(26,633)	(27,901)	(118,267)	(92,650)
Write-off of acquired in-process technology (b)	-	(186,000)	-	(225,600)
Amortization of acquisition-related intangible assets (c)	(4,558)	(4,853)	(25,308)	(17,432)
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 237,263</u>	<u>\$ 185,738</u>	<u>\$ 782,630</u>	<u>\$ 577,457</u>
GAAP OPERATING INCOME	\$ 173,296	\$ 11,540	\$ 276,514	\$ 326,334
Cost of product revenues adjustments (a) (c) (d)	18,642	17,731	86,618	22,830
Operating expense adjustments (a) (b) (c)	31,191	218,754	143,575	335,682
NON-GAAP OPERATING INCOME	<u>\$ 223,129</u>	<u>\$ 248,025</u>	<u>\$ 506,707</u>	<u>\$ 684,846</u>
GAAP NET INCOME (LOSS)	\$ 105,810	\$ (35,141)	\$ 218,357	\$ 198,896
Cost of product revenues adjustments (a) (c) (d)	18,642	17,731	86,618	22,830
Operating expense adjustments (a) (b) (c)	31,191	218,754	143,575	335,682
Income tax adjustments (e)	5,985	(9,673)	(40,441)	(34,548)
NON-GAAP NET INCOME	<u>\$ 161,628</u>	<u>\$ 191,671</u>	<u>\$ 408,109</u>	<u>\$ 522,860</u>
Net income per share calculation: Non-GAAP				
Net income used in computing basic Non-GAAP net income per share	\$ 161,628	\$ 191,671	\$ 408,109	\$ 522,860
Tax-effected interest costs related to convertible long term debt	117	58	469	58
Net income used in computing diluted Non-GAAP net income per share	<u>\$ 161,745</u>	<u>\$ 191,729</u>	<u>\$ 408,578</u>	<u>\$ 522,918</u>
Diluted net income (loss) per share:				
GAAP	\$ 0.45	\$ (0.17)	\$ 0.93	\$ 0.96
Non-GAAP	\$ 0.69	\$ 0.87	\$ 1.73	\$ 2.51
Shares used in computing diluted net income (loss) per share:				
GAAP	234,033	210,849	235,857	207,451
Non-GAAP	234,154	220,090	236,614	208,661

SanDisk Corporation
Reconciliation of GAAP to Non-GAAP Operating Results (1)

(1) 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 recorded 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 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 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 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.