

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.