

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

	Three months ended	
	March 30, 2008	April 1, 2007
<b>SUMMARY RECONCILIATION OF NET INCOME</b>		
<b>GAAP NET INCOME (LOSS)</b>	\$ 17,880	\$ (575)
Adjustments:		
Share-based compensation (a)	23,226	31,219
Amortization of acquisition-related intangible assets (b)	19,057	30,162
Inventory step-up expense related to msystems acquisition (c)	-	4,947
Income tax adjustments (d)	(12,377)	(20,918)
<b>NON-GAAP NET INCOME</b>	<u>\$ 47,786</u>	<u>\$ 44,835</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 591,186	\$ 591,150
Share-based compensation (a)	(3,629)	(3,214)
Amortization of acquisition-related intangible assets (b)	(14,582)	(21,062)
Inventory step-up expense related to msystems acquisition (c)	-	(4,947)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 572,975</u>	<u>\$ 561,927</u>
<b>GAAP GROSS PROFIT</b>	\$ 258,781	\$ 194,936
Share-based compensation (a)	3,629	3,214
Amortization of acquisition-related intangible assets (b)	14,582	21,062
Inventory step-up expense related to msystems acquisition (c)	-	4,947
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 276,992</u>	<u>\$ 224,159</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 111,434	\$ 95,640
Share-based compensation (a)	(8,826)	(12,687)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 102,608</u>	<u>\$ 82,953</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 80,156	\$ 56,206
Share-based compensation (a)	(3,511)	(6,923)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 76,645</u>	<u>\$ 49,283</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 57,804	\$ 46,991
Share-based compensation (a)	(7,260)	(8,395)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 50,544</u>	<u>\$ 38,596</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 253,869	\$ 214,453
Share-based compensation (a)	(19,597)	(28,005)
Write-off of acquired in-process technology (L)	-	-
Amortization of acquisition-related intangible assets (b)	(4,475)	(9,100)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 229,797</u>	<u>\$ 177,348</u>
<b>GAAP OPERATING INCOME (LOSS)</b>	\$ 4,912	\$ (19,517)
Cost of product revenues adjustments (a) (b) (c)	18,211	29,223
Operating expense adjustments (a) (b)	24,072	37,105
<b>NON-GAAP OPERATING INCOME</b>	<u>\$ 47,195</u>	<u>\$ 46,811</u>
<b>GAAP NET INCOME (LOSS)</b>	\$ 17,880	\$ (575)
Cost of product revenues adjustments (a) (b) (c)	18,211	29,223
Operating expense adjustments (a) (b)	24,072	37,105
Income tax adjustments (d)	(12,377)	(20,918)
<b>NON-GAAP NET INCOME</b>	<u>\$ 47,786</u>	<u>\$ 44,835</u>
<b>Net income (loss) per share calculation: GAAP</b>		
Net income (loss) used in computing basic GAAP net income per share	\$ 17,880	\$ (575)
Tax-effected interest costs related to convertible long term debt	117	-
Net income (loss) used in computing diluted net income per share	<u>\$ 17,997</u>	<u>\$ (575)</u>
<b>Net income per share calculation: Non-GAAP</b>		
Net income used in computing basic Non-GAAP net income per share	\$ 47,786	\$ 44,835
Tax-effected interest costs related to convertible long term debt	117	117
Net income used in computing diluted net income per share	<u>\$ 47,903</u>	<u>\$ 44,952</u>
Diluted net income (loss) per share:		
GAAP	\$ 0.08	\$ (0.00)
Non-GAAP	\$ 0.21	\$ 0.19
Shares used in computing diluted net income (loss) per share:		
GAAP	229,480	227,455
Non-GAAP	229,383	236,426

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(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 measures 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) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisition of Matrix (January 2006) and msystems (November 2006).
- (c) Inventory step-up expense related to msystems acquisition.
- (d) Income taxes associated with certain non-GAAP adjustments.