

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

	Three months ended		Nine months ended	
	September 28, 2008	September 30, 2007	September 28, 2008	September 30, 2007
<b>SUMMARY RECONCILIATION OF NET INCOME (LOSS)</b>				
<b>GAAP NET INCOME (LOSS)</b>	\$ (155,194)	\$ 84,638	\$ (205,191)	\$ 112,547
Share-based compensation (a)	25,551	34,127	73,885	102,317
Amortization of acquisition-related intangible assets (b)	19,348	19,182	57,540	70,977
Inventory step-up expense related to msystems acquisition (c)	-	-	-	7,066
Income tax adjustments (d)	(21,793)	(8,144)	(32,877)	(46,427)
<b>NON-GAAP NET INCOME (LOSS)</b>	<u>\$ (132,088)</u>	<u>\$ 129,803</u>	<u>\$ (106,643)</u>	<u>\$ 246,480</u>
<b>GAAP COST OF PRODUCT REVENUES</b>	\$ 827,414	\$ 695,103	\$ 2,083,740	\$ 1,889,572
Share-based compensation (a)	(2,648)	(4,162)	(8,286)	(10,683)
Amortization of acquisition-related intangible assets (b)	(14,582)	(14,582)	(43,746)	(50,227)
Inventory step-up expense related to msystems acquisition (c)	-	-	-	(7,066)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 810,184</u>	<u>\$ 676,359</u>	<u>\$ 2,031,708</u>	<u>\$ 1,821,596</u>
<b>GAAP GROSS PROFIT (LOSS)</b>	\$ (5,917)	\$ 342,320	\$ 403,735	\$ 760,969
Share-based compensation (a)	2,648	4,162	8,286	10,683
Amortization of acquisition-related intangible assets (b)	14,582	14,582	43,746	50,227
Inventory step-up expense related to msystems acquisition (c)	-	-	-	7,066
<b>NON-GAAP GROSS PROFIT (LOSS)</b>	<u>\$ 11,313</u>	<u>\$ 361,064</u>	<u>\$ 455,767</u>	<u>\$ 828,945</u>
<b>GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 104,560	\$ 110,533	\$ 328,137	\$ 307,358
Share-based compensation (a)	(10,543)	(12,528)	(28,693)	(38,228)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 94,017</u>	<u>\$ 98,005</u>	<u>\$ 299,444</u>	<u>\$ 269,130</u>
<b>GAAP SALES AND MARKETING EXPENSES</b>	\$ 87,859	\$ 72,455	\$ 245,653	\$ 189,178
Share-based compensation (a)	(5,546)	(7,956)	(15,480)	(25,240)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 82,313</u>	<u>\$ 64,499</u>	<u>\$ 230,173</u>	<u>\$ 163,938</u>
<b>GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 47,091	\$ 45,581	\$ 158,579	\$ 133,737
Share-based compensation (a)	(6,814)	(9,481)	(21,426)	(28,166)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 40,277</u>	<u>\$ 36,100</u>	<u>\$ 137,153</u>	<u>\$ 105,571</u>
<b>GAAP TOTAL OPERATING EXPENSES</b>	\$ 244,276	\$ 233,169	\$ 750,248	\$ 657,751
Share-based compensation (a)	(22,903)	(29,965)	(65,599)	(91,634)
Amortization of acquisition-related intangible assets (b)	(4,766)	(4,600)	(13,794)	(20,750)
<b>NON-GAAP TOTAL OPERATING EXPENSES</b>	<u>\$ 216,607</u>	<u>\$ 198,604</u>	<u>\$ 670,855</u>	<u>\$ 545,367</u>
<b>GAAP OPERATING INCOME (LOSS)</b>	\$ (250,193)	\$ 109,151	\$ (346,513)	\$ 103,218
Cost of product revenues adjustments (a) (b) (c)	17,230	18,744	52,032	67,976
Operating expense adjustments (a) (b)	27,669	34,565	79,393	112,384
<b>NON-GAAP OPERATING INCOME (LOSS)</b>	<u>\$ (205,294)</u>	<u>\$ 162,460</u>	<u>\$ (215,088)</u>	<u>\$ 283,578</u>
<b>GAAP NET INCOME (LOSS)</b>	\$ (155,194)	\$ 84,638	\$ (205,191)	\$ 112,547
Cost of product revenues adjustments (a) (b) (c)	17,230	18,744	52,032	67,976
Operating expense adjustments (a) (b)	27,669	34,565	79,393	112,384
Income tax adjustments (d)	(21,793)	(8,144)	(32,877)	(46,427)
<b>NON-GAAP NET INCOME (LOSS)</b>	<u>\$ (132,088)</u>	<u>\$ 129,803</u>	<u>\$ (106,643)</u>	<u>\$ 246,480</u>
Diluted net income (loss) per share:				
GAAP	\$ (0.69)	\$ 0.36	\$ (0.91)	\$ 0.48
Non-GAAP	\$ (0.59)	\$ 0.54	\$ (0.47)	\$ 1.04
Shares used in computing diluted net income (loss) per share:				
GAAP	225,682	236,930	225,030	235,992
Non-GAAP	225,682	238,643	225,030	237,313

SanDisk Corporation  
Reconciliation of Preliminary GAAP to Non-GAAP Operating Results <sup>(1)</sup>

(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, msystems Ltd. in November 2006 and MusicGremlin, Inc. in June 2008, 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), msystems (November 2006), and MusicGremlin (June 2008).
- (c) Inventory step-up expense related to msystems acquisition.
- (d) Income taxes associated with certain non-GAAP adjustments.