

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

	Three months ended		Twelve months ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
SUMMARY RECONCILIATION OF NET INCOME (LOSS)				
GAAP NET INCOME (LOSS)	\$ (1,864,599)	\$ 105,810	\$ (2,069,790)	\$ 218,357
Share-based compensation (a)	23,914	30,693	97,799	133,010
Impairment of goodwill and acquisition-related intangible assets (b)	1,021,238	-	1,021,238	-
Amortization of acquisition-related intangible assets (c)	14,041	19,140	71,581	90,117
Inventory step-up expense related to msystems acquisition (d)	-	-	-	7,066
Income tax adjustments (e)	433,061	5,985	400,184	(40,441)
NON-GAAP NET INCOME (LOSS)	<u>\$ (372,345)</u>	<u>\$ 161,628</u>	<u>\$ (478,988)</u>	<u>\$ 408,109</u>
GAAP COST OF PRODUCT REVENUES				
Share-based compensation (a)	\$ 1,204,525	\$ 804,075	\$ 3,288,265	\$ 2,693,647
Amortization of acquisition-related intangible assets (c)	(2,489)	(4,060)	(10,775)	(14,743)
Inventory step-up expense related to msystems acquisition (d)	(10,766)	(14,582)	(54,512)	(64,809)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 1,191,270</u>	<u>\$ 785,433</u>	<u>\$ 3,222,978</u>	<u>\$ 2,607,029</u>
GAAP GROSS PROFIT (LOSS)				
Share-based compensation (a)	\$ (340,648)	\$ 441,750	\$ 63,087	\$ 1,202,719
Amortization of acquisition-related intangible assets (c)	2,489	4,060	10,775	14,743
Inventory step-up expense related to msystems acquisition (d)	10,766	14,582	54,512	64,809
NON-GAAP GROSS PROFIT (LOSS)	<u>\$ (327,393)</u>	<u>\$ 460,392</u>	<u>\$ 128,374</u>	<u>\$ 1,289,337</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES				
Share-based compensation (a)	\$ 101,812	\$ 110,708	\$ 429,949	\$ 418,066
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ (10,161)</u>	<u>\$ (10,965)</u>	<u>\$ (38,854)</u>	<u>\$ (49,193)</u>
GAAP SALES AND MARKETING EXPENSES				
Share-based compensation (a)	\$ 82,426	\$ 105,416	\$ 328,079	\$ 294,594
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ (4,587)</u>	<u>\$ (6,482)</u>	<u>\$ (20,067)</u>	<u>\$ (31,722)</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES				
Share-based compensation (a)	\$ 77,839	\$ 98,934	\$ 308,012	\$ 262,872
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 46,186</u>	<u>\$ 47,772</u>	<u>\$ 204,765</u>	<u>\$ 181,509</u>
Share-based compensation (a)	(6,677)	(9,186)	(28,103)	(37,352)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 39,509</u>	<u>\$ 38,586</u>	<u>\$ 176,662</u>	<u>\$ 144,157</u>
GAAP TOTAL OPERATING EXPENSES				
Share-based compensation (a)	\$ 1,286,319	\$ 268,454	\$ 2,036,567	\$ 926,205
Impairment of goodwill and acquisition-related intangible assets (b)	(21,425)	(26,633)	(87,024)	(118,267)
Amortization of acquisition-related intangible assets (c)	(1,021,238)	-	(1,021,238)	-
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ (3,275)</u>	<u>\$ (4,558)</u>	<u>\$ (17,069)</u>	<u>\$ (25,308)</u>
GAAP OPERATING INCOME (LOSS)				
Cost of product revenues adjustments (a) (c) (d)	\$ (1,626,967)	\$ 173,296	\$ (1,973,480)	\$ 276,514
Operating expense adjustments (a) (b) (c)	13,255	18,642	65,287	86,618
NON-GAAP OPERATING INCOME (LOSS)	<u>\$ 1,045,938</u>	<u>\$ 31,191</u>	<u>\$ 1,125,331</u>	<u>\$ 143,575</u>
GAAP NET INCOME (LOSS)				
Cost of product revenues adjustments (a) (c) (d)	\$ (567,774)	\$ 223,129	\$ (782,862)	\$ 506,707
Operating expense adjustments (a) (b) (c)	13,255	18,642	65,287	86,618
Income tax adjustments (e)	1,045,938	31,191	1,125,331	143,575
NON-GAAP NET INCOME (LOSS)	<u>\$ 433,061</u>	<u>\$ 5,985</u>	<u>\$ 400,184</u>	<u>\$ (40,441)</u>
Non-GAAP net income (loss) per share calculation				
Net income (loss) used in computing basic non-GAAP net income (loss) per share	\$ (372,345)	\$ 161,628	\$ (478,988)	\$ 408,109
Tax-effected interest costs related to convertible long-term debt	-	117	-	469
Net income (loss) used in computing diluted non-GAAP net income (loss) per share	<u>\$ (372,345)</u>	<u>\$ 161,745</u>	<u>\$ (478,988)</u>	<u>\$ 408,578</u>
Diluted net income (loss) per share:				
GAAP	\$ (8.25)	\$ 0.45	\$ (9.19)	\$ 0.93
Non-GAAP	\$ (1.65)	\$ 0.69	\$ (2.13)	\$ 1.73
Shares used in computing diluted net income (loss) per share:				
GAAP	226,079	234,033	225,292	235,857
Non-GAAP	226,079	234,154	225,292	236,614

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(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 (loss) and net income (loss) 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), the amortization of acquisition-related intangible assets related to acquisitions of Matrix Semiconductor, Inc. in January 2006, msystems Ltd. in November 2006 and MusicGremlin, Inc. in June 2008, and the impairment of goodwill and the acquisition-related intangible assets, 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 impairment of goodwill and acquisition-related intangible assets, amortization of purchased intangible assets, and share-based compensation, 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) Impairment of goodwill and acquisition-related intangible assets primarily relating to acquisitions of Matrix Semiconductor, Inc. (January 2006), msystems Ltd. (November 2006), and MusicGremlin, Inc. (June 2008).
- (c) Amortization of acquisition-related intangible assets, primarily core and developed technology, related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), msystems Ltd. (November 2006), and MusicGremlin, Inc. (June 2008).
- (d) Inventory step-up expense related to msystems Ltd. acquisition.
- (e) Income taxes associated with certain non-GAAP to GAAP adjustments and a valuation allowance on deferred taxes.