

SanDisk Corporation
Preliminary Condensed Consolidated Statements of Operations
(in thousands, except per share amounts, unaudited)

	Three months ended	
	April 1, 2012	April 3, 2011
Revenues:		
Product	\$ 1,106,422	\$ 1,210,247
License and royalty	99,139	83,953
Total revenues	<u>1,205,561</u>	<u>1,294,200</u>
Cost of product revenues	775,320	737,492
Amortization of acquisition-related intangible assets	13,731	5,116
Total cost of product revenues	<u>789,051</u>	<u>742,608</u>
Gross profit	<u>416,510</u>	<u>551,592</u>
Operating expenses:		
Research and development	140,957	119,542
Sales and marketing	49,035	47,457
General and administrative	32,591	35,299
Amortization of acquisition-related intangible assets	2,063	—
Total operating expenses	<u>224,646</u>	<u>202,298</u>
Operating income	191,864	349,294
Other income (expense)	<u>(25,316)</u>	<u>(18,366)</u>
Income before income taxes	166,548	330,928
Provision for income taxes	<u>52,163</u>	<u>106,804</u>
Net income	<u>\$ 114,385</u>	<u>\$ 224,124</u>
Net income per share:		
Basic	\$ 0.47	\$ 0.94
Diluted	\$ 0.46	\$ 0.92
Shares used in computing net income per share:		
Basic	242,883	237,473
Diluted	247,102	243,404

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

	Three months ended	
	April 1, 2012	April 3, 2011
SUMMARY RECONCILIATION OF NET INCOME		
GAAP NET INCOME	\$ 114,385	\$ 224,124
Share-based compensation (a)	19,080	14,591
Amortization of acquisition-related intangible assets (b)	15,794	5,116
Convertible debt interest (c)	21,887	23,365
Income tax adjustments (d)	(14,830)	(16,616)
NON-GAAP NET INCOME	<u>\$ 156,316</u>	<u>\$ 250,580</u>
GAAP COST OF PRODUCT REVENUES	\$ 789,051	\$ 742,608
Share-based compensation (a)	(1,537)	(943)
Amortization of acquisition-related intangible assets (b)	(13,731)	(5,116)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 773,783</u>	<u>\$ 736,549</u>
GAAP GROSS PROFIT	\$ 416,510	\$ 551,592
Share-based compensation (a)	1,537	943
Amortization of acquisition-related intangible assets (b)	13,731	5,116
NON-GAAP GROSS PROFIT	<u>\$ 431,778</u>	<u>\$ 557,651</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 140,957	\$ 119,542
Share-based compensation (a)	(10,027)	(7,244)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 130,930</u>	<u>\$ 112,298</u>
GAAP SALES AND MARKETING EXPENSES	\$ 49,035	\$ 47,457
Share-based compensation (a)	(3,629)	(2,174)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 45,406</u>	<u>\$ 45,283</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 32,591	\$ 35,299
Share-based compensation (a)	(3,887)	(4,230)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 28,704</u>	<u>\$ 31,069</u>
GAAP TOTAL OPERATING EXPENSES	\$ 224,646	\$ 202,298
Share-based compensation (a)	(17,543)	(13,648)
Amortization of acquisition-related intangible assets (b)	(2,063)	-
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 205,040</u>	<u>\$ 188,650</u>
GAAP OPERATING INCOME	\$ 191,864	\$ 349,294
Cost of product revenues adjustments (a) (b)	15,268	6,059
Operating expense adjustments (a) (b)	19,606	13,648
NON-GAAP OPERATING INCOME	<u>\$ 226,738</u>	<u>\$ 369,001</u>
GAAP OTHER INCOME (EXPENSE)	\$ (25,316)	\$ (18,366)
Convertible debt interest (c)	21,887	23,365
NON-GAAP OTHER INCOME (EXPENSE)	<u>\$ (3,429)</u>	<u>\$ 4,999</u>
GAAP NET INCOME	\$ 114,385	\$ 224,124
Cost of product revenues adjustments (a) (b)	15,268	6,059
Operating expense adjustments (a) (b)	19,606	13,648
Convertible debt interest (c)	21,887	23,365
Income tax adjustments (d)	(14,830)	(16,616)
NON-GAAP NET INCOME	<u>\$ 156,316</u>	<u>\$ 250,580</u>
Diluted net income per share:		
GAAP	\$ 0.46	\$ 0.92
Non-GAAP	\$ 0.63	\$ 1.03
Shares used in computing diluted net income per share:		
GAAP	247,102	243,404
Non-GAAP	247,192	243,441

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

- (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 and net income 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, amortization of acquisition-related intangible assets related to acquisitions of Matrix Semiconductor, Inc. in January 2006, Pliant Technology, Inc. in May 2011 and FlashSoft Corporation in February 2012, non-cash economic interest expense associated with the convertible debt and related tax adjustments, 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 amortization of purchased intangible assets, share-based compensation, non-cash economic interest expense associated with our convertible debt and related tax adjustments, 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) Amortization of acquisition-related intangible assets, primarily core technology, developed technology, customer relationships and trademarks related to the acquisitions of Matrix Semiconductor, Inc. (January 2006), Pliant Technology, Inc. (May 2011) and FlashSoft Corporation (February 2012).
- (c) Incremental interest expense relating to the non-cash economic interest expense associated with the Company's 1% Sr. Convertible Notes due 2013 and 1.5% Sr. Convertible Notes due 2017.
- (d) Income taxes associated with certain non-GAAP to GAAP adjustments.

SanDisk Corporation
Preliminary Condensed Consolidated Balance Sheets
(in thousands, unaudited)

	April 1, 2012	January 1, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,093,263	\$ 1,167,496
Short-term marketable securities	1,575,339	1,681,492
Accounts receivable from product revenues, net	362,580	521,763
Inventory	764,003	678,382
Deferred taxes	97,202	100,409
Other current assets	192,159	206,419
Total current assets	4,084,546	4,355,961
Long-term marketable securities	2,803,622	2,766,263
Property and equipment, net	453,032	344,897
Notes receivable and investments in Flash Ventures	1,821,841	1,943,295
Deferred taxes	190,353	199,027
Goodwill	197,669	154,899
Intangible assets, net	287,794	287,691
Other non-current assets	173,250	122,615
Total assets	\$ 10,012,107	\$ 10,174,648
LIABILITIES		
Current liabilities:		
Accounts payable trade	\$ 224,290	\$ 258,583
Accounts payable to related parties	201,072	276,275
Other current accrued liabilities	299,394	337,517
Deferred income on shipments to distributors and retailers and deferred revenue	179,375	220,999
Total current liabilities	904,131	1,093,374
Convertible long-term debt	1,627,234	1,604,911
Non-current liabilities	451,781	415,524
Total liabilities	2,983,146	3,113,809
EQUITY		
Stockholders' equity:		
Common stock	4,988,521	4,934,808
Retained earnings	1,870,356	1,796,849
Accumulated other comprehensive income	173,758	332,701
Total stockholders' equity	7,032,635	7,064,358
Non-controlling interests	(3,674)	(3,519)
Total equity	7,028,961	7,060,839
Total liabilities and equity	\$ 10,012,107	\$ 10,174,648

SanDisk Corporation
Preliminary Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three months ended	
	April 1, 2012	April 3, 2011
Cash flows from operating activities:		
Net income	\$ 114,385	\$ 224,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	5,503	6,174
Depreciation	33,178	29,775
Amortization	45,146	32,839
Provision for doubtful accounts	(1,285)	(2,745)
Share-based compensation expense	19,080	14,591
Excess tax benefit from share-based compensation	(8,597)	(6,412)
Impairment, restructuring and other	(5,454)	(13,177)
Other non-operating	29,662	20,448
Changes in operating assets and liabilities:		
Accounts receivable from product revenues	160,474	131,464
Inventory	(85,212)	16,379
Other assets	65,706	(23,749)
Accounts payable trade	(34,293)	(36,309)
Accounts payable to related parties	(75,203)	(30,496)
Other liabilities	(195,916)	35,733
Total adjustments	<u>(47,211)</u>	<u>174,515</u>
Net cash provided by operating activities	<u>67,174</u>	<u>398,639</u>
Cash flows from investing activities:		
Purchases of short and long-term marketable securities	(756,357)	(637,501)
Proceeds from sale of short and long-term marketable securities	625,736	497,603
Proceeds from maturities of short and long-term marketable securities	192,842	117,240
Acquisition of property, land and equipment	(144,218)	(33,745)
Investment in Flash Ventures	(12,526)	(61)
Notes receivable issuance to Flash Ventures	(51,130)	(213,951)
Notes receivable proceeds from Flash Ventures	63,833	85,096
Purchased technology and other assets	(28)	(100,000)
Acquisitions, net of cash acquired	(54,538)	(15,000)
Net cash used in investing activities	<u>(136,386)</u>	<u>(300,319)</u>
Cash flows from financing activities:		
Proceeds from employee stock programs	45,318	42,148
Excess tax benefit from share-based compensation	8,597	6,412
Share repurchase program	(60,911)	—
Net cash received in settlement of stock repurchase contracts	1,142	—
Net cash provided by (used in) financing activities	<u>(5,854)</u>	<u>48,560</u>
Effect of changes in foreign currency exchange rates on cash	<u>833</u>	<u>(1,579)</u>
Net increase (decrease) in cash and cash equivalents	(74,233)	145,301
Cash and cash equivalents at beginning of period	1,167,496	829,149
Cash and cash equivalents at end of period	<u>\$ 1,093,263</u>	<u>\$ 974,450</u>