

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

	Three months ended	
	March 29, 2015	March 30, 2014
Revenue	\$ 1,332,241	\$ 1,511,945
Cost of revenue	762,483	741,039
Amortization of acquisition-related intangible assets	24,756	19,616
Total cost of revenue	787,239	760,655
Gross profit	545,002	751,290
Operating expenses:		
Research and development	222,726	198,829
Sales and marketing	101,820	76,972
General and administrative	48,047	48,669
Amortization of acquisition-related intangible assets	13,681	1,646
Impairment of acquisition-related intangible assets	61,000	—
Restructuring and other	40,541	—
Total operating expenses	487,815	326,116
Operating income	57,187	425,174
Other income (expense), net	(23,570)	(15,635)
Income before income taxes	33,617	409,539
Provision for (benefit from) income taxes	(5,408)	140,591
Net income	\$ 39,025	\$ 268,948
Net income per share:		
Basic	\$ 0.18	\$ 1.19
Diluted	\$ 0.17	\$ 1.14
Shares used in computing net income per share:		
Basic	211,428	225,845
Diluted	224,049	234,914

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

	Three months ended	
	March 29, 2015	March 30, 2014
SUMMARY RECONCILIATION OF NET INCOME:		
GAAP NET INCOME	\$ 39,025	\$ 268,948
Share-based compensation (a)	41,410	30,030
Amortization of acquisition-related intangible assets (b)	38,437	21,262
Impairment of acquisition-related intangible assets (c)	61,000	—
Convertible debt interest (d)	22,134	20,964
Income tax adjustments (e)	(68,319)	(11,174)
NON-GAAP NET INCOME	<u>\$ 133,687</u>	<u>\$ 330,030</u>
GAAP COST OF REVENUE	\$ 787,239	\$ 760,655
Share-based compensation (a)	(4,062)	(2,610)
Amortization of acquisition-related intangible assets (b)	(24,756)	(19,616)
NON-GAAP COST OF REVENUE	<u>\$ 758,421</u>	<u>\$ 738,429</u>
GAAP GROSS PROFIT	\$ 545,002	\$ 751,290
Share-based compensation (a)	4,062	2,610
Amortization of acquisition-related intangible assets (b)	24,756	19,616
NON-GAAP GROSS PROFIT	<u>\$ 573,820</u>	<u>\$ 773,516</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 222,726	\$ 198,829
Share-based compensation (a)	(21,043)	(15,675)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 201,683</u>	<u>\$ 183,154</u>
GAAP SALES AND MARKETING EXPENSES	\$ 101,820	\$ 76,972
Share-based compensation (a)	(9,535)	(6,257)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 92,285</u>	<u>\$ 70,715</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 48,047	\$ 48,669
Share-based compensation (a)	(6,770)	(5,488)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 41,277</u>	<u>\$ 43,181</u>
GAAP TOTAL OPERATING EXPENSES	\$ 487,815	\$ 326,116
Share-based compensation (a)	(37,348)	(27,420)
Amortization of acquisition-related intangible assets (b)	(13,681)	(1,646)
Impairment of acquisition-related intangible assets (c)	(61,000)	—
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 375,786</u>	<u>\$ 297,050</u>
GAAP OPERATING INCOME	\$ 57,187	\$ 425,174
Cost of revenue adjustments (a) (b)	28,818	22,226
Operating expense adjustments (a) (b) (c)	112,029	29,066
NON-GAAP OPERATING INCOME	<u>\$ 198,034</u>	<u>\$ 476,466</u>
GAAP OTHER INCOME (EXPENSE), NET	\$ (23,570)	\$ (15,635)
Convertible debt interest (d)	22,134	20,964
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ (1,436)</u>	<u>\$ 5,329</u>
GAAP NET INCOME	\$ 39,025	\$ 268,948
Cost of revenue adjustments (a) (b)	28,818	22,226
Operating expense adjustments (a) (b) (c)	112,029	29,066
Other income (expense) adjustments (d)	22,134	20,964
Income tax adjustments (e)	(68,319)	(11,174)
NON-GAAP NET INCOME	<u>\$ 133,687</u>	<u>\$ 330,030</u>
Diluted net income per share:		
GAAP	\$ 0.17	\$ 1.14
Non-GAAP	\$ 0.62	\$ 1.44
Shares used in computing diluted net income per share:		
GAAP	224,049	234,914
Non-GAAP (f)	216,842	229,508

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

SUMMARY RECONCILIATION OF DILUTED SHARES:	Three months ended	
	March 29, 2015	March 30, 2014
GAAP	224,049	234,914
Adjustments for share-based compensation	220	296
Offsetting shares from call options	(7,427)	(5,702)
Non-GAAP ^(f)	216,842	229,508

(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 they are consistent with the financial models and estimates published by many analysts who follow us. 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 Pliant Technology, Inc. in May 2011, FlashSoft Corporation in February 2012, Schooner Information Technology, Inc. in June 2012, SMART Storage Systems in August 2013 and Fusion-io, Inc. in July 2014, impairment of acquisition-related in-process research and development intangible assets, non-cash economic interest expense associated with the convertible senior notes, non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017 and related tax adjustments, we believe the inclusion of non-GAAP financial measures provides consistency in our financial reporting. In addition, our non-GAAP diluted shares are adjusted for the impact of expensing share-based compensation and include the impact of the call options which, when exercised, will offset the issuance of dilutive shares from the convertible senior notes, while our GAAP diluted shares exclude the anti-dilutive impact of these call options. 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 share-based compensation, amortization of acquisition-related intangible assets, impairment of acquisition-related in-process research and development intangible assets, non-cash economic interest expense associated with the convertible senior notes, non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017 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 developed technology, customer relationships, and trademarks and trade names related to the acquisitions of Pliant Technology, Inc., FlashSoft Corporation, Schooner Information Technology, Inc., SMART Storage Systems and Fusion-io, Inc.
- (c) Impairment of acquisition-related in-process research and development intangible assets related to the acquisition of Fusion-io, Inc.
- (d) Incremental interest expense related to the non-cash economic interest expense associated with the convertible senior notes and the non-cash change in fair value of the liability component of the convertible senior notes due to the conversion of a portion of the 1.5% Convertible Senior Notes due 2017.
- (e) Income taxes associated with certain non-GAAP to GAAP adjustments and the effects of one-time income tax adjustments recorded in a specific quarter for GAAP purposes are reflected on a forecast basis in our non-GAAP tax rate but not in our forecasted GAAP tax rate.
- (f) Non-GAAP diluted shares are adjusted for the impact of expensing share-based compensation and include the impact of offsetting shares from the call options related to the convertible senior notes.

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

	March 29, 2015	December 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 649,940	\$ 809,003
Short-term marketable securities	1,347,541	1,455,509
Accounts receivable, net	589,246	842,476
Inventory	713,053	698,011
Deferred taxes	162,298	180,134
Other current assets	290,908	214,992
Total current assets	3,752,986	4,200,125
Long-term marketable securities	2,396,950	2,758,475
Property and equipment, net	769,933	724,357
Notes receivable and investments in Flash Ventures	989,678	962,817
Deferred taxes	157,292	161,827
Goodwill	831,328	831,328
Intangible assets, net	437,858	542,351
Other non-current assets	125,196	108,677
Total assets	\$ 9,461,221	\$ 10,289,957
LIABILITIES, CONVERTIBLE SHORT-TERM DEBT CONVERSION OBLIGATION AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 397,617	\$ 404,237
Accounts payable to related parties	147,870	136,051
Convertible short-term debt (1)	880,653	869,645
Other current accrued liabilities	409,434	506,293
Deferred income on shipments to distributors and retailers and deferred revenue	255,102	274,657
Total current liabilities	2,090,676	2,190,883
Convertible long-term debt	1,211,097	1,199,696
Non-current liabilities	207,334	245,554
Total liabilities	3,509,107	3,636,133
Convertible short-term debt conversion obligation (1)	116,067	127,143
Stockholders' equity:		
Common stock	5,144,181	5,236,982
Retained earnings	876,252	1,499,149
Accumulated other comprehensive loss	(183,041)	(208,072)
Total stockholders' equity	5,837,392	6,528,059
Non-controlling interests	(1,345)	(1,378)
Total equity	5,836,047	6,526,681
Total liabilities, convertible short-term debt conversion obligation and equity	\$ 9,461,221	\$ 10,289,957

(1) The 1.5% Convertible Senior Notes due 2017 are convertible through June 30, 2015 as a result of the Company's common stock price exceeding the trigger price set forth in the indenture. Accordingly, the carrying value of the notes is reported as short-term debt as of March 29, 2015 and will remain so while the notes are convertible. The Convertible short-term debt conversion obligation represents the difference between the carrying value of the convertible debt and the principal amount due in cash upon conversion.

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

	Three months ended	
	March 29, 2015	March 30, 2014
Cash flows from operating activities:		
Net income	\$ 39,025	\$ 268,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(965)	6,951
Depreciation	69,081	60,089
Amortization	83,374	72,598
Provision for doubtful accounts	330	(547)
Share-based compensation expense	41,410	30,030
Excess tax benefit from share-based plans	(8,865)	(17,460)
Impairment and other	63,709	—
Other non-operating	(4,187)	1,020
Changes in operating assets and liabilities:		
Accounts receivable, net	252,899	86,689
Inventory	(13,945)	(42,117)
Other assets	(94,673)	54,547
Accounts payable trade	(26,090)	(36,546)
Accounts payable to related parties	11,819	13,572
Other liabilities	(104,057)	(115,695)
Total adjustments	269,840	113,131
Net cash provided by operating activities	308,865	382,079
Cash flows from investing activities:		
Purchases of short and long-term marketable securities	(692,656)	(1,266,899)
Proceeds from sales of short and long-term marketable securities	1,045,097	1,015,605
Proceeds from maturities of short and long-term marketable securities	99,881	129,620
Acquisition of property and equipment, net	(98,287)	(34,517)
Notes receivable issuances to Flash Ventures	(100,499)	(24,352)
Notes receivable proceeds from Flash Ventures	89,693	24,352
Purchased technology and other assets	(1,500)	(869)
Acquisitions, net of cash acquired	—	2,368
Net cash provided by (used in) investing activities	341,729	(154,692)
Cash flows from financing activities:		
Repayment of debt financing	(68)	—
Proceeds from employee stock programs	30,844	51,882
Excess tax benefit from share-based plans	8,865	17,460
Dividends paid	(64,503)	(51,560)
Share repurchases (1)	(783,899)	(114,452)
Net cash used in financing activities	(808,761)	(96,670)
Effect of changes in foreign currency exchange rates on cash	(896)	(25)
Net increase (decrease) in cash and cash equivalents	(159,063)	130,692
Cash and cash equivalents at beginning of period	809,003	986,246
Cash and cash equivalents at end of period	\$ 649,940	\$ 1,116,938

(1) Share repurchases include cash used to repurchase common stock and cash used to settle employee tax withholding obligations due upon the vesting of restricted stock units.

SanDisk Corporation Preliminary Quarterly Metrics

Revenue Mix by Category ⁽¹⁾

% of revenue (unaudited)

Percentages may not add to 100% due to rounding

	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>	<u>Q1'15</u>	<u>FY'14</u>
Embedded ⁽²⁾	20%	19%	24%	26%	25%	23%
Removable ⁽³⁾	40%	40%	38%	33%	38%	38%
Client SSD Solutions ⁽⁴⁾	22%	21%	17%	16%	13%	19%
Enterprise Solutions ⁽⁵⁾	6%	8%	10%	15%	14%	10%
Other ⁽⁶⁾	11%	12%	11%	10%	10%	11%
Total Revenue	100%	100%	100%	100%	100%	100%

(1) Revenue by category is estimated based on analysis of the information the company collects in its sales reporting processes.

(2) Embedded includes products that attach to a host system board.

(3) Removable includes products such as cards, USB flash drives and audio/video players.

(4) Client SSD Solutions includes SSDs used in client devices and associated software.

(5) Enterprise Solutions includes SSDs, system solutions and software used in datacenter applications.

(6) Other includes wafers, components, accessories and license and royalty.

Revenue Mix by Channel

% of revenue (unaudited)

	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>	<u>Q1'15</u>	<u>FY'14</u>
Retail	35%	33%	32%	31%	35%	33%
Commercial ⁽¹⁾	65%	67%	68%	69%	65%	67%
Total Revenue	100%	100%	100%	100%	100%	100%

(1) Commercial includes revenue from OEMs, system integrators, value-added resellers, direct sales and license and royalties.

SanDisk Corporation Preliminary Quarterly Metrics

	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>	<u>Q1'15</u>
Q/Q Change in ASP/Gigabyte	-3%	-16%	-3%	-4%	-10%
Y/Y Change in ASP/Gigabyte	-7%	-26%	-26%	-24%	-29%
Q/Q Change in Gigabytes Sold	-10%	+31%	+9%	+4%	-15%
Y/Y Change in Gigabytes Sold	+20%	+51%	+43%	+32%	+24%
Average GB/Unit Capacity	13.9	14.1	16.5	22.3	20.8
As of end of period:					
Factory Headcount ⁽¹⁾⁽³⁾	1,366	2,874	3,276	3,284	3,149
Non-Factory Headcount ⁽²⁾	<u>4,490</u>	<u>4,664</u>	<u>5,461</u>	<u>5,412</u>	<u>5,490</u>
Total Headcount ⁽³⁾	5,856	7,538	8,737	8,696	8,639

(1) Reflects SanDisk China and Malaysia factory employees, excluding temporary and contract workers.

(2) Reflects SanDisk non-factory employees, excluding temporary and contract workers.

(3) During fiscal 2014, 1,505 employees were converted from contractor to employee status in SanDisk's assembly and test facility in China.