

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Revenue	\$ 1,237,196	\$ 1,634,011	\$ 2,569,437	\$ 3,145,956
Cost of revenue	723,995	854,640	1,486,478	1,595,679
Amortization of acquisition-related intangible assets	28,822	19,721	53,578	39,337
Total cost of revenue	752,817	874,361	1,540,056	1,635,016
Gross profit	484,379	759,650	1,029,381	1,510,940
Operating expenses:				
Research and development	218,418	204,030	441,144	402,859
Sales and marketing	96,681	83,398	198,501	160,370
General and administrative	41,932	54,085	89,979	102,754
Amortization of acquisition-related intangible assets	13,681	1,481	27,362	3,127
Impairment of acquisition-related intangible assets	—	—	61,000	—
Restructuring and other	9,746	—	50,287	—
Total operating expenses	380,458	342,994	868,273	669,110
Operating income	103,921	416,656	161,108	841,830
Other income (expense), net	(12,777)	(13,579)	(36,347)	(29,214)
Income before income taxes	91,144	403,077	124,761	812,616
Provision for income taxes	10,171	129,131	4,763	269,722
Net income	\$ 80,973	\$ 273,946	\$ 119,998	\$ 542,894
Net income per share:				
Basic	\$ 0.39	\$ 1.21	\$ 0.57	\$ 2.41
Diluted	\$ 0.38	\$ 1.14	\$ 0.55	\$ 2.28
Shares used in computing net income per share:				
Basic	206,737	225,544	209,083	225,694
Diluted	212,712	240,756	218,490	238,463

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
SUMMARY RECONCILIATION OF NET INCOME:				
GAAP NET INCOME	\$ 80,973	\$ 273,946	\$ 119,998	\$ 542,894
Share-based compensation (a)	44,422	34,449	85,832	64,479
Amortization of acquisition-related intangible assets (b)	42,503	21,202	80,940	42,464
Impairment of acquisition-related intangible assets (c)	—	—	61,000	—
Convertible debt interest (d)	22,603	21,125	44,737	42,089
Income tax adjustments (e)	(54,045)	(22,023)	(122,364)	(33,197)
NON-GAAP NET INCOME	<u>\$ 136,456</u>	<u>\$ 328,699</u>	<u>\$ 270,143</u>	<u>\$ 658,729</u>
GAAP COST OF REVENUE	\$ 752,817	\$ 874,361	\$ 1,540,056	\$ 1,635,016
Share-based compensation (a)	(5,022)	(3,507)	(9,084)	(6,117)
Amortization of acquisition-related intangible assets (b)	(28,822)	(19,721)	(53,578)	(39,337)
NON-GAAP COST OF REVENUE	<u>\$ 718,973</u>	<u>\$ 851,133</u>	<u>\$ 1,477,394</u>	<u>\$ 1,589,562</u>
GAAP GROSS PROFIT	\$ 484,379	\$ 759,650	\$ 1,029,381	\$ 1,510,940
Share-based compensation (a)	5,022	3,507	9,084	6,117
Amortization of acquisition-related intangible assets (b)	28,822	19,721	53,578	39,337
NON-GAAP GROSS PROFIT	<u>\$ 518,223</u>	<u>\$ 782,878</u>	<u>\$ 1,092,043</u>	<u>\$ 1,556,394</u>
GAAP RESEARCH AND DEVELOPMENT EXPENSES	\$ 218,418	\$ 204,030	\$ 441,144	\$ 402,859
Share-based compensation (a)	(22,309)	(17,500)	(43,352)	(33,175)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 196,109</u>	<u>\$ 186,530</u>	<u>\$ 397,792</u>	<u>\$ 369,684</u>
GAAP SALES AND MARKETING EXPENSES	\$ 96,681	\$ 83,398	\$ 198,501	\$ 160,370
Share-based compensation (a)	(9,948)	(7,204)	(19,483)	(13,461)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 86,733</u>	<u>\$ 76,194</u>	<u>\$ 179,018</u>	<u>\$ 146,909</u>
GAAP GENERAL AND ADMINISTRATIVE EXPENSES	\$ 41,932	\$ 54,085	\$ 89,979	\$ 102,754
Share-based compensation (a)	(7,143)	(6,238)	(13,913)	(11,726)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 34,789</u>	<u>\$ 47,847</u>	<u>\$ 76,066</u>	<u>\$ 91,028</u>
GAAP TOTAL OPERATING EXPENSES	\$ 380,458	\$ 342,994	\$ 868,273	\$ 669,110
Share-based compensation (a)	(39,400)	(30,942)	(76,748)	(58,362)
Amortization of acquisition-related intangible assets (b)	(13,681)	(1,481)	(27,362)	(3,127)
Impairment of acquisition-related intangible assets (c)	—	—	(61,000)	—
NON-GAAP TOTAL OPERATING EXPENSES	<u>\$ 327,377</u>	<u>\$ 310,571</u>	<u>\$ 703,163</u>	<u>\$ 607,621</u>
GAAP OPERATING INCOME	\$ 103,921	\$ 416,656	\$ 161,108	\$ 841,830
Cost of revenue adjustments (a) (b)	33,844	23,228	62,662	45,454
Operating expense adjustments (a) (b) (c)	53,081	32,423	165,110	61,489
NON-GAAP OPERATING INCOME	<u>\$ 190,846</u>	<u>\$ 472,307</u>	<u>\$ 388,880</u>	<u>\$ 948,773</u>
GAAP OTHER INCOME (EXPENSE), NET	\$ (12,777)	\$ (13,579)	\$ (36,347)	\$ (29,214)
Convertible debt interest (d)	22,603	21,125	44,737	42,089
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ 9,826</u>	<u>\$ 7,546</u>	<u>\$ 8,390</u>	<u>\$ 12,875</u>
GAAP NET INCOME	\$ 80,973	\$ 273,946	\$ 119,998	\$ 542,894
Cost of revenue adjustments (a) (b)	33,844	23,228	62,662	45,454
Operating expense adjustments (a) (b) (c)	53,081	32,423	165,110	61,489
Other income (expense) adjustments (d)	22,603	21,125	44,737	42,089
Income tax adjustments (e)	(54,045)	(22,023)	(122,364)	(33,197)
NON-GAAP NET INCOME	<u>\$ 136,456</u>	<u>\$ 328,699</u>	<u>\$ 270,143</u>	<u>\$ 658,729</u>
Diluted net income per share:				
GAAP	\$ 0.38	\$ 1.14	\$ 0.55	\$ 2.28
Non-GAAP	\$ 0.66	\$ 1.41	\$ 1.27	\$ 2.84
Shares used in computing diluted net income per share:				
GAAP	212,712	240,756	218,490	238,463
Non-GAAP (f)	208,093	232,808	212,351	231,570

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
SUMMARY RECONCILIATION OF DILUTED SHARES:				
GAAP	212,712	240,756	218,490	238,463
Adjustments for share-based compensation	89	336	107	266
Offsetting shares from call options	(4,708)	(8,284)	(6,246)	(7,159)
Non-GAAP (f)	<u>208,093</u>	<u>232,808</u>	<u>212,351</u>	<u>231,570</u>

(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 the non-GAAP tax rate but not in the 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)

	June 28, 2015	December 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 685,790	\$ 809,003
Short-term marketable securities	1,078,221	1,455,509
Accounts receivable, net	640,842	842,476
Inventory	780,773	698,011
Deferred taxes	160,935	180,134
Other current assets	310,795	214,992
Total current assets	3,657,356	4,200,125
Long-term marketable securities	2,239,072	2,758,475
Property and equipment, net	804,764	724,357
Notes receivable and investments in Flash Ventures	936,392	962,817
Deferred taxes	158,506	161,827
Goodwill	831,328	831,328
Intangible assets, net	390,355	542,351
Other non-current assets	131,658	108,677
Total assets	\$ 9,149,431	\$ 10,289,957
LIABILITIES, CONVERTIBLE SHORT-TERM DEBT CONVERSION OBLIGATION AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 412,403	\$ 404,237
Accounts payable to related parties	139,771	136,051
Convertible short-term debt (1)	892,054	869,645
Other current accrued liabilities	356,480	506,293
Deferred income on shipments to distributors and retailers and deferred revenue	236,352	274,657
Total current liabilities	2,037,060	2,190,883
Convertible long-term debt	1,222,642	1,199,696
Non-current liabilities	163,080	245,554
Total liabilities	3,422,782	3,636,133
Convertible short-term debt conversion obligation (1)	104,666	127,143
Stockholders' equity:		
Common stock	5,141,172	5,236,982
Retained earnings	704,389	1,499,149
Accumulated other comprehensive loss	(223,578)	(208,072)
Total stockholders' equity	5,621,983	6,528,059
Non-controlling interests	—	(1,378)
Total equity	5,621,983	6,526,681
Total liabilities, convertible short-term debt conversion obligation and equity	\$ 9,149,431	\$ 10,289,957

(1) The 1.5% Convertible Senior Notes due 2017 were 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 June 28, 2015. Based upon the Company's stock price not exceeding the trigger price set forth in the indenture at June 30, 2015, the 1.5% Convertible Senior Notes due 2017 will not be convertible during the calendar quarter ending September 30, 2015. 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		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Cash flows from operating activities:				
Net income	\$ 80,973	\$ 273,946	\$ 119,998	\$ 542,894
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred taxes	(2,232)	641	(3,197)	7,592
Depreciation	70,074	61,364	139,155	121,453
Amortization	86,358	72,996	169,732	145,594
Provision for doubtful accounts	310	388	640	(159)
Share-based compensation expense	44,422	34,449	85,832	64,479
Excess tax benefit from share-based plans	(1,476)	(10,552)	(10,341)	(28,012)
Impairment and other	—	—	63,709	—
Other non-operating	(2,909)	(312)	(7,096)	708
Changes in operating assets and liabilities:				
Accounts receivable, net	(51,190)	(163,687)	201,709	(76,998)
Inventory	(67,707)	48,562	(81,652)	6,445
Other assets	(12,379)	(55,066)	(107,052)	(519)
Accounts payable trade	3,733	49,795	(22,357)	13,249
Accounts payable to related parties	(8,099)	(9,292)	3,720	4,280
Other liabilities	(111,014)	(62,372)	(215,071)	(178,067)
Total adjustments	(52,109)	(33,086)	217,731	80,045
Net cash provided by operating activities	<u>28,864</u>	<u>240,860</u>	<u>337,729</u>	<u>622,939</u>
Cash flows from investing activities:				
Purchases of short and long-term marketable securities	(580,930)	(1,511,635)	(1,273,586)	(2,778,534)
Proceeds from sales of short and long-term marketable securities	877,931	1,078,061	1,923,028	2,093,666
Proceeds from maturities of short and long-term marketable securities	106,811	249,875	206,692	379,495
Acquisition of property and equipment, net	(95,562)	(44,149)	(193,849)	(78,666)
Investment in Flash Ventures	—	(24,296)	—	(24,296)
Notes receivable issuances to Flash Ventures	(71,347)	(63,607)	(171,846)	(87,959)
Notes receivable proceeds from Flash Ventures	86,463	87,952	176,156	112,304
Purchased technology and other assets	(5,374)	(684)	(6,874)	(1,553)
Acquisitions, net of cash acquired	—	—	—	2,368
Other	(866)	—	(866)	—
Net cash provided by (used in) investing activities	<u>317,126</u>	<u>(228,483)</u>	<u>658,855</u>	<u>(383,175)</u>
Cash flows from financing activities:				
Repayment of debt financing	—	—	(68)	—
Proceeds from employee stock programs	4,855	51,682	35,699	103,564
Excess tax benefit from share-based plans	1,476	10,552	10,341	28,012
Dividends paid	(62,596)	(50,838)	(127,099)	(102,398)
Share repurchases (1)	(253,576)	(256,996)	(1,037,475)	(371,448)
Net cash used in financing activities	<u>(309,841)</u>	<u>(245,600)</u>	<u>(1,118,602)</u>	<u>(342,270)</u>
Effect of changes in foreign currency exchange rates on cash	(299)	1,400	(1,195)	1,375
Net increase (decrease) in cash and cash equivalents	35,850	(231,823)	(123,213)	(101,131)
Cash and cash equivalents at beginning of period	649,940	1,116,938	809,003	986,246
Cash and cash equivalents at end of period	<u>\$ 685,790</u>	<u>\$ 885,115</u>	<u>\$ 685,790</u>	<u>\$ 885,115</u>

(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>Q2'15</u>	<u>FY'14</u>	<u>FY'15 YTD</u>
Embedded ⁽²⁾	20%	19%	24%	26%	25%	20%	23%	23%
Removable ⁽³⁾	40%	40%	38%	33%	38%	44%	38%	41%
Client SSD Solutions ⁽⁴⁾	22%	21%	17%	16%	13%	10%	19%	12%
Enterprise Solutions ⁽⁵⁾	6%	8%	10%	15%	14%	14%	10%	14%
Other ⁽⁶⁾	11%	12%	11%	10%	10%	11%	11%	11%
Total Revenue	100%	100%	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 data center 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>Q2'15</u>	<u>FY'14</u>	<u>FY'15 YTD</u>
Retail	35%	33%	32%	31%	35%	39%	33%	37%
Commercial ⁽¹⁾	65%	67%	68%	69%	65%	61%	67%	63%
Total Revenue	100%	100%	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
(unaudited)

	<u>Q1'14</u>	<u>Q2'14</u>	<u>Q3'14</u>	<u>Q4'14</u>	<u>Q1'15</u>	<u>Q2'15</u>
Q/Q Change in Gigabytes Sold	-10%	+31%	+9%	+4%	-15%	-1%
Y/Y Change in Gigabytes Sold	+20%	+51%	+43%	+32%	+24%	-6%
Q/Q Change in ASP/Gigabyte	-3%	-16%	-3%	-4%	-10%	-6%
Y/Y Change in ASP/Gigabyte	-7%	-26%	-26%	-24%	-29%	-21%
Q/Q Change in Cost/Gigabyte ⁽¹⁾	-3%	-12%	-3%	+3%	-6%	-4%
Y/Y Change in Cost/Gigabyte ⁽¹⁾	-23%	-28%	-23%	-15%	-17%	-10%
Average Gigabyte/Unit Capacity	13.9	14.1	16.5	22.3	20.8	19.2
As of end of period:						
Factory Headcount ⁽²⁾⁽³⁾	1,366	2,874	3,276	3,284	3,149	3,149
Non-Factory Headcount ⁽⁴⁾	<u>4,490</u>	<u>4,664</u>	<u>5,461</u>	<u>5,412</u>	<u>5,490</u>	<u>5,371</u>
Total Headcount	5,856	7,538	8,737	8,696	8,639	8,520

(1) Cost per gigabyte and cost reduction are non-GAAP and are computed from non-GAAP cost of revenue.

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

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

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

(5) Headcount at the end of Q2'15 included 107 employees who had been notified of reduction-in-force but were still on the payroll as of the end of Q2'15.