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Prepared Remarks on Second Fiscal Quarter 2012 Results

July 19, 2012

JAY IYER, INVESTOR RELATIONS

Thank you and good afternoon. Joining us on the call today are Sanjay Mehrotra, President and CEO of SanDisk and Judy Bruner, Executive Vice President of Administration and CFO.

Before we begin, please note that any non-GAAP financial measures discussed during this call, as defined by the SEC in Regulation G, will be reconciled to the most directly comparable GAAP financial measure. That reconciliation is now available along with supplemental schedules on our web site at sandisk.com/IR. Please note that non-GAAP to GAAP reconciliation tables for all applicable guidance will be posted on our website. This guidance is exclusive of any one-time transactions and does not reflect the effect of any acquisitions, divestitures or similar transactions that may be completed after July 19, 2012. In addition, during our call today, we will make forward-looking statements. Any statement that refers to expectations, projections or other characterizations of future events including financial projections

and future market conditions, is a forward-looking statement. Actual results may differ materially from those expressed in these forward-looking statements. For more information, please refer to the “Risk Factors” discussed in the documents we file from time to time with the SEC, including our Annual Report on Form 10-K for fiscal 2011 and our subsequent quarterly reports on Form 10-Q. SanDisk assumes no obligation to update these forward-looking statements, which speak as of their respective dates.

With that, I will turn the call over to Sanjay.

SANJAY MEHROTRA, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thank you Jay and good afternoon everyone.

As we expected, the second quarter reflected continued weakness in our product sales to mobile OEMs partially offset by strength in retail. Our solid state drives sales grew sequentially to 10% of total second quarter revenue and we strengthened our enterprise SSD solution offerings with the acquisition of Schooner Information Technology. We made good progress in developing new products for the mobile market and we expect these products to drive revenue growth starting in the third quarter of 2012.

In the second quarter, as we have discussed previously, the bundled card opportunity with handset OEMs continued to decline due to a combination of OEMs reducing their bill-of-materials costs and increasing their mix of embedded flash smartphones. Although we have seen modest increases in retail card bundling by some operators in certain regions, it is premature to assess if reductions in OEM card bundling will provide sustained meaningful increases in retail.

We began a major effort late last year on expanding our product portfolio to enable resumption in the growth of our mobile OEM embedded category. I am pleased to report that we began initial revenue shipments of a customized embedded solution for a key customer late in the second quarter. From Q3 onward, we expect this new customized embedded solution to contribute significantly to our revenue. During the second quarter, we also successfully completed qualification and began initial shipments of our new multi-chip package (MCP) solutions to certain budget smart phone customers. The MCPs are essentially our iNAND™ embedded products packaged with mobile DRAM. We are engaged with various other OEM customers in completing additional qualifications for our MCPs. Additionally, our next generation high-performance iNAND is currently in testing and qualification stages with various mobile OEM customers. We expect these next generation iNAND to begin production ramp in the third quarter. Overall, we are driving aggressively towards re-invigorating the growth of our embedded business and are encouraged with the success achieved so far.

Turning to SSDs, our client SSD sales continue to scale nicely driven by both U- and X-series SSDs as well as by the embedded iSSD products. SanDisk's high-performance X100 SSD was successfully qualified at several customers and started production shipments in the second quarter. We also started production shipments to several platforms using SanDisk solutions in caching applications, the majority of which pair the SanDisk SSD™ module or iSSD with the ExpressCache™ software. These programs represent significant progress for SanDisk in the client OEM SSD market with design wins at nine major PC OEMs.

In enterprise SSDs, we had strong sequential growth from our SAS drives. We also began shipments of our first generation PCIe solutions at 200 and 400 gigabyte capacities initially targeted for sales through value-added resellers and distributors. Our objective with this product launch is to seed the market and nurture our opportunities in a segment that is looking for cost/performance optimized PCIe SSD solutions. Initial feedback from industry analysts and solutions partners on our PCIe SSD has been positive. I am also pleased to note that some of our enterprise SSDs have started to ship with our captive memory.

On the software front, we have successfully integrated the FlashSoft™ team into our Enterprise Storage Solutions group and we achieved initial software revenues for the caching solutions and gained positive traction with target OEM customers. In

addition, we acquired Schooner Information Technology and its team that has solid expertise in database and data store markets. Schooner's product portfolio has been designed and optimized to exploit the capabilities of NAND flash memory, multi-core processing power and high-speed networking infrastructure within data centers. The FlashSoft and Schooner acquisitions are highly complementary as they enable SanDisk to provide performance acceleration solutions at the I/O level and at the application layer. We are delighted with the progress we are making towards providing greater value-added and innovative storage solutions for our enterprise customers.

Retail had a solid quarter, despite the weak global macroeconomic environment, with sequential revenue growth from SSDs and a richer mix of high-performance imaging products. We achieved strong sales and market share gains in emerging markets with 160% year-over-year increase in units sold and we also gained share in U.S. and in Europe. We recently launched our High Performance microSD™ card and USB 3.0 flash drive, as we continue to demonstrate our performance leadership in the industry.

From a manufacturing technology standpoint, our 19-nanometer transition accounted for about half of our production mix in the second quarter with excellent yields on both X2 and X3 technologies. We have been, and expect to remain, the industry leader in the use of X3 memory. As the industry transitions to increasingly powerful embedded mobile and SSD applications, the high-performance storage solutions

required, we believe, will primarily use X2 memory. Consequently, as our share of these markets expands, we expect to increase the mix of X2 memory in our products in the foreseeable future.

The imbalance between industry supply and demand that began in the fourth quarter of 2011 persisted well into the second quarter. However, since the early part of 2012, there has been significant industry-wide slow-down in wafer capacity growth causing moderation in the rate of industry supply growth beginning in the second quarter. The resulting improvement in pricing trends was especially noticeable towards the end of the second quarter. As we look forward into the second half of 2012, we anticipate the launch of several new smartphones and tablets, along with a number of SSD-equipped Ultrabooks and other thin client PCs, to drive continued increases in demand for NAND flash. As a result, we expect an improved industry supply demand and pricing environment in the second half of 2012.

Turning to industry bit growth, we now forecast lower industry supply growth for both 2012 and 2013. This is the result of the industry slow down in capacity growth, a continued slow down in technology transitions, and the longer tail of technology nodes driven by OEM requirements. We now estimate industry bit growth for 2012 to be in the 70% range. For 2013, we now estimate industry bit growth to be in the 40-50% range down from the 50-60% range estimated previously. As to SanDisk capacity growth, we have not made any decision on further ramp of Phase 1 of Fab 5

and do not expect new SanDisk wafer capacity increase until sometime in 2013. We believe that flash demand growth fueled by smartphones, tablets and SSDs will outstrip bit supply growth in 2013, supporting stronger industry fundamentals.

In conclusion, we anticipate solid sequential revenue growth in Q3 and Q4 due to an improved supply/demand balance, strong secular demand drivers, and our expanding portfolio of products and solutions, which allow us to address a broader set of market opportunities. Our SSD sales continue to grow nicely and we are moving the company higher up the value chain with our SSD software solutions. We continue to manage our capacity growth prudently, and remain focused on profitable growth by leveraging our expanding product portfolio and our diversified mix of customers and channels. We will continue to make targeted investments in technology to sustain our competitive cost structure, and in resources to grow our enterprise and client storage solutions. Given our market initiatives, technology investments, and focus on execution, we look forward to improved performance in the second half of 2012 and beyond.

With that, I will turn the call over to Judy for her financial overview and outlook.

JUDY BRUNER, EXECUTIVE VICE PRESIDENT, ADMINISTRATION & CFO

Thank you, Sanjay. Our second quarter results were consistent with the forecasts we provided in April, and our expectations remain intact for improving financial performance across the second half, reflecting our expanding OEM product portfolio, our growing presence in the SSD markets, and an improved industry pricing environment.

Starting with a review of second quarter revenue, our petabytes sold increased 5% sequentially and 52% year-over-year, and our ASP per gigabyte declined 18% sequentially and 52% year-over-year. The mix of our second quarter product revenue was 45% retail and 55% OEM, reflecting sequential growth in retail revenue of 10% and a sequential decline in OEM revenue of 28%. On a year-over-year basis, our retail revenue was up 1% while our OEM revenue declined 39%.

Within the retail channel, we experienced strong sequential revenue growth in both Asia and Europe and modest growth in the U.S., with high performance imaging products and SSDs being the primary growth drivers. On a year-over-year basis, retail revenue declined in the US and Europe and experienced strong growth from Asia and Latin America, driven by mobile cards and USBs. Across our retail regions, we experienced strong average capacity growth in our Imaging and USB products. The demand for high performance imaging cards plays to our strengths and these products have a positive impact on our gross margin mix. Within the OEM channel,

our revenue declined from both mobile cards and mobile embedded products, and our revenue increased nicely from SSDs, both sequentially and year-over-year.

Our License & Royalty revenue was down 12% sequentially and 6% year-over-year, with the decline related to reduced licensable revenues of our licensees.

Turning to gross margin, our total non-GAAP gross margin was 28%, equal to the mid-point of our forecasted range. Our total cost per gigabyte improved 9% sequentially and 35% year-over-year. Non-captive memory represented approximately 3% of our Q2 revenue, down from approximately 8% in the first quarter. The Yen rate in our cost of sales was approximately 79, resulting in a sequential positive benefit of approximately \$5 million and a year-over-year negative impact of approximately \$26 million.

Non-GAAP operating expenses increased sequentially by \$19 million, to \$224 million, very close to our forecast. R&D increased \$11 million related to SSD hardware and software development, NAND development for 1Y and 1Z nodes and spending on future technologies. G&A increased \$5 million primarily due to a one-time insurance recovery in the first quarter, and the \$3 million increase in sales and marketing related primarily to SSDs and seasonal retail merchandising expenses. Our second quarter non-GAAP operating expenses were roughly flat on a year-over-year

basis as reduced incentive compensation has offset increased investments related to technology and SSDs.

On the balance sheet, cash and short- and long-term marketable securities decreased sequentially by \$212 million and ended the quarter at \$5.3 billion on a gross basis and \$3.3 billion net of debt at the maturity value. Cash flow from operations in Q2 was a positive \$19 million. Inventory at the end of Q2 represented approximately one quarters' worth of supply. With growing second half revenues and no capacity expansion for the remainder of the year, we believe inventory will return to lower, normal levels in the second half. Our primary cash outflows in the second quarter included \$113 million related to share repurchases, and \$96 million for capex. The fab joint ventures delivered net cash of \$19 million to SanDisk. Joint Venture capital investments for the benefit of SanDisk have been \$335 million year-to-date bringing total SanDisk capital investment including non-fab capex to \$575 million year-to-date. Our share of joint venture equipment lease guarantees stood at \$950 million at the end of Q2.

I'll now turn to forward-looking commentary.

As Sanjay described, we believe that the improved supply/demand environment experienced late in Q2 will continue in the second half, resulting in a better pricing environment. In addition, we expect to benefit from sequential growth in our mobile

embedded revenue and continuing growth in our SSD sales. Our third quarter revenue forecast is \$1.20 billion +/- \$50 million. Looking ahead to the fourth quarter, we expect to benefit from continued sequential growth in sales of our mobile embedded products and SSDs as well as retail fourth quarter seasonality.

For Q3 we are forecasting that our price decline and cost decline will be in relative balance, allowing gross margins to stabilize. Our expected blended price decline reflects an improved industry pricing environment as well as growing sales of high margin SSD solutions, offset by an increased mix of lower margin custom embedded solutions. Our expected total non-GAAP gross margin remains consistent with Q2 at approximately 28% +/- 2 points. We currently expect our gross margin to begin improving in the fourth quarter with a continued favorable supply/demand environment and an increasing mix of higher value-added product sales.

In terms of operating expenses, our key focus areas for investment are SSD solutions, enterprise sales and marketing capabilities and our three-pronged memory technology strategy. These are strategic investments that we believe will have significant payback over time, so it is important that we make these investments even when profitability is below our target model. We expect non-GAAP operating expenses of approximately \$235 million for the third quarter and approximately \$910 million for the year, down from the \$920 million forecast we provided in April. We expect non-

GAAP Other Income to remain at approximately \$5 million on a quarterly basis and we forecast our tax rate to be approximately 30% on a non-GAAP basis.

In terms of fab capital spend, the investments for the remainder of the year will be focused on technology transitions with no added wafer capacity. We expect the joint ventures to continue to be a net source of cash to SanDisk in the second half of the year. We expect our total capital investment for 2012 to be approximately \$1.2 billion, including about \$700 million at the fab joint ventures and about \$500 million of SanDisk capex. In total, we expect the 2012 cash outflow for these investments to be approximately \$400 million with \$221 million spent year-to-date.

In summary, we believe our second half performance will benefit from an improved demand/supply environment and growing sales from mobile embedded products and SSD solutions, and we expect to deliver improving revenue, earnings and cash flow across the second half of 2012. We will now open the call for your questions.

JAY IYER, INVESTOR RELATIONS

We want to thank everyone for joining our call today. A webcast replay of today's call should be available on our investor relations website shortly. Thank you and have a good evening.

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