

1 ROBBINS GELLER RUDMAN  
& DOWD LLP  
2 SHAWN A. WILLIAMS (213113)  
Post Montgomery Center  
3 One Montgomery Street, Suite 1800  
San Francisco, CA 94104  
4 Telephone: 415/288-4545  
415/288-4534 (fax)  
5 shawnw@rgrdlaw.com  
– and –

6 DAVID C. WALTON (167268)  
655 West Broadway, Suite 1900  
7 San Diego, CA 92101-8498  
Telephone: 619/231-1058  
8 619/231-7423 (fax)  
davew@rgrdlaw.com

9 Attorneys for Plaintiff

10 [Additional counsel appear on signature page.]

11 UNITED STATES DISTRICT COURT  
12  
13 NORTHERN DISTRICT OF CALIFORNIA

14 CITY OF STERLING HEIGHTS GENERAL )  
EMPLOYEES' RETIREMENT SYSTEM, )  
15 Individually and on Behalf of All Others )  
Similarly Situated, )

16 Plaintiff, )

17 vs. )

18 SANDISK CORPORATION, SANJAY )  
MEHROTRA and JUDY BRUNER, )  
19 )

20 Defendants. )

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF THE  
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

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1 Plaintiff, individually and on behalf of all others similarly situated, by plaintiff's undersigned  
2 attorneys, for plaintiff's complaint against defendants, alleges the following based upon personal  
3 knowledge as to plaintiff and plaintiff's own acts, and upon information and belief as to all other  
4 matters based on the investigation conducted by and through plaintiff's attorneys, which included,  
5 among other things, a review of Securities and Exchange Commission ("SEC") filings by SanDisk  
6 Corporation ("SanDisk" or the "Company"), as well as media reports about the Company and  
7 conference call transcripts. Plaintiff believes that substantial additional evidentiary support will exist  
8 for the allegations set forth herein after a reasonable opportunity for discovery.

### 9 INTRODUCTION AND OVERVIEW

10 1. This is a securities class action on behalf of all persons who purchased or otherwise  
11 acquired the publicly traded securities of SanDisk between April 16, 2014 and April 15, 2015,  
12 inclusive (the "Class Period"), against SanDisk and certain of its officers and/or directors for  
13 violations of the Securities Exchange Act of 1934 (the "1934 Act"). These claims are asserted  
14 against SanDisk and certain of its officers and/or directors who made materially false and misleading  
15 statements during the Class Period in press releases, analyst conference calls, and filings with the  
16 SEC.  
17

18 2. SanDisk is a global provider of flash storage products. The Company designs,  
19 develops and manufactures data storage solutions in a variety of formats using flash memory,  
20 controller, firmware and software technologies.

21 3. During the Class Period, defendants issued materially false and misleading statements  
22 and/or omitted adverse information regarding the Company's operations, sales and product  
23 development, including that the Company was experiencing production qualification delays on  
24 certain of its key products and lower than expected sales of enterprise products. Defendants also  
25 concealed problems associated with SanDisk's acquisition of Fusion-io, Inc. ("Fusion-io") in June  
26 2014. Subsequently, the Company was forced to announce drastically lower first quarter revenue  
27 estimates compared to prior forecasts and withdraw its 2015 forecasts entirely. As a result of  
28

1 defendants' false statements, SanDisk securities traded at artificially inflated prices during the Class  
2 Period, with its stock price reaching a high of \$107.83 per share on July 16, 2014.

3 4. On March 26, 2015, SanDisk issued a press release announcing that it expected  
4 revenue for the first fiscal quarter fiscal 2015 to be approximately \$1.3 billion, rather than the  
5 previously forecast revenue of \$1.40 billion to \$1.45 billion.<sup>1</sup> The Company disclosed that it  
6 expected revenues would fall \$100 million below the low end of its previous revenue guidance for  
7 the quarter "primarily due to certain product qualification delays, lower than expected sales of  
8 enterprise products and lower pricing in some areas of the business." Moreover, the Company  
9 announced that it expected these adverse trends to continue into 2015, and as a result, the Company  
10 would not be able to make its other forecasts for the quarter or meet its 2015 revenue guidance.

11 5. As a result of this news, SanDisk's stock plummeted \$14.98 per share to close at  
12 \$66.20 per share on March 26, 2015, a one-day decline of 18% on volume of 32.3 million shares.

13 6. Then, on April 15, 2015, after the market closed, SanDisk issued a press release  
14 announcing its first quarter fiscal 2015 financial results. The Company reported net income of \$39  
15 million, or \$0.17 diluted earnings per share ("EPS"), and revenue of \$1.33 billion for the quarter  
16 ended March 29, 2015. The Company also announced a write-down of \$61 million associated with  
17 Fusion-io.

18 7. As a result of this news, SanDisk stock dropped \$3.21 per share to close at \$67.91 per  
19 share on April 16, 2015, a one-day decline of nearly 5% on volume of 23.6 million shares.

20 8. As a result of defendants' false statements, SanDisk securities traded at artificially  
21 inflated prices during the Class Period. While SanDisk's stock price was artificially inflated, the  
22 Company's top officers and directors were able to sell over \$35.8 million worth of their SanDisk  
23 stock, including \$10.6 million worth of stock sold by SanDisk's Chief Financial Officer ("CFO")  
24 and nearly \$10.6 million worth of stock sold by its Chief Executive Officer ("CEO"). However,  
25  
26

27  
28 <sup>1</sup> SanDisk's fiscal year ends the Sunday nearest to December 31 each year.

1 after the above revelations seeped into the market, the Company's securities were hammered by  
2 massive sales, sending the Company's stock price down 37% from its Class Period high.

### 3 **JURISDICTION AND VENUE**

4 9. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the 1934  
5 Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R.  
6 §240.10b-5]. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.  
7 §1331 and §27 of the 1934 Act.  
8

9 10. Venue is proper in this District pursuant to §27 of the 1934 Act and 28 U.S.C.  
10 §1391(b). Many of the acts charged herein, including the preparation and dissemination of  
11 materially false and misleading information, occurred in substantial part in this District.

12 11. In connection with the acts alleged in this complaint, defendants, directly or  
13 indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to,  
14 the mails, interstate telephone communications and the facilities of the NASDAQ stock market.  
15

### 16 **PARTIES**

17 12. Plaintiff City of Sterling Heights General Employees' Retirement System acquired  
18 SanDisk securities as set forth in the attached certification and has been damaged thereby.

19 13. Defendant SanDisk designs, develops, markets and manufactures data storage  
20 solutions in a variety of form factors using its flash memory, controller, firmware and software  
21 technologies. The Company maintains its headquarters at 951 SanDisk Drive, Milpitas, California  
22 95035.

23 14. Defendant Sanjay Mehrotra ("Mehrotra") is, and at all relevant times was, SanDisk's  
24 President and CEO. During the Class Period, defendant Mehrotra sold 108,381 shares of his  
25 SanDisk stock for proceeds of nearly \$10.6 million.

26 15. Defendant Judy Bruner ("Bruner") is, and at all relevant times was, the Company's  
27 CFO and Executive Vice President, Administration. During the Class Period, defendant Bruner sold  
28 119,718 shares of her SanDisk stock for proceeds of \$10.6 million.

1           16.     The defendants referenced above in ¶¶14-15 are referred to herein as the “Individual  
2 Defendants.” The Individual Defendants made, or caused to be made, false statements which caused  
3 the prices of SanDisk’s securities to be artificially inflated during the Class Period.

4           17.     The Individual Defendants, because of their positions with the Company, possessed  
5 the power and authority to control the contents of SanDisk’s quarterly reports, shareholder letters,  
6 press releases and presentations to securities analysts, money and portfolio managers and  
7 institutional investors, *i.e.*, the market. They were provided with copies of the Company’s reports  
8 and press releases alleged herein to be misleading prior to or shortly after their issuance and had the  
9 ability and opportunity to prevent their issuance or cause them to be corrected. Because of their  
10 positions with the Company, and their access to material non-public information available to them  
11 but not to the public, the Individual Defendants knew that the adverse facts specified herein had not  
12 been disclosed to and were being concealed from the public, and that the positive representations  
13 being made were then materially false and misleading. The Individual Defendants are liable for the  
14 false and misleading statements pleaded herein.  
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17                           **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

18           18.     Defendants are liable for: (i) making false statements; or (ii) failing to disclose  
19 adverse facts known to them or deliberately disregarded by them about SanDisk. Defendants  
20 engaged in a fraudulent scheme and course of business that operated as a fraud or deceit on  
21 purchasers of SanDisk securities, which: (i) deceived the investing public regarding SanDisk’s  
22 prospects and business; (ii) artificially inflated the prices of SanDisk securities; (iii) caused plaintiff  
23 and other members of the Class to purchase SanDisk securities at inflated prices; and (iv) permitted  
24 the Company’s top officers and directors to sell 384,585 shares of their SanDisk stock at artificially  
25 inflated prices for proceeds of over \$35.8 million.  
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27  
28

1 **BACKGROUND**

2 19. SanDisk purports to be a global leader in flash storage solutions. The Company  
3 designs, develops and manufactures data storage solutions in a variety of form factors using flash  
4 memory, controller, firmware and software technologies. Most of the Company’s products are made  
5 by combining NAND flash memory with a controller and firmware. SanDisk purchases  
6 substantially all of its NAND flash supply through joint venture relationships with Toshiba  
7 Corporation, which produces and provides the Company with NAND wafers. The Company uses  
8 controllers designed in-house as well as controllers purchased from third parties, while the vast  
9 majority of products are designed in-house.

10 **DEFENDANTS’ MATERIALLY FALSE AND**  
11 **MISLEADING STATEMENTS DURING THE CLASS PERIOD**

12 20. On April 16, 2014, SanDisk issued a press release announcing its first quarter fiscal  
13 2014 financial results. The Company reported net income of \$269 million, or \$1.14 diluted EPS,  
14 and revenue of \$1.51 billion for the first quarter ended March 30, 2014. The release stated in part:

15 “We delivered record first quarter results, driven by 61 percent growth in our  
16 SSD revenue and strong retail performance,” said Sanjay Mehrotra, president and  
17 chief executive officer of SanDisk. “We are excited by the momentum we are  
18 building in our business as we continue to execute on our growth initiatives.”

19 21. After releasing its financial results for its first quarter of fiscal 2014 on April 16,  
20 2014, SanDisk hosted a conference call for analysts, media representatives and investors during  
21 which defendants represented the following:

22 [MEHROTRA:] We anticipate that enterprise SSDs will be our fastest-  
23 growing product category in 2014, and *we are off to a great start towards exceeding*  
24 *our goal of delivering 25% of 2014 revenue from enterprise and client SSDs*  
25 *combined.*

26 \* \* \*

27 Many of the new products contributed to our first-quarter revenue. We are  
28 off to a good start and expect 2014 to be another solid year for our business in the  
retail channel.

\* \* \*

For 2014, SanDisk supply bit growth estimates remain unchanged, between  
25% and 35%. And our estimate for industry supply bit growth of approximately

1 40% for 2014 remains unchanged, as well. For 2014, we continue to expect overall  
2 healthy industry fundamentals.

3 \* \* \*

4 [ANALYST:] And then just [one] last thing for me, inventories were up a little bit  
5 on down revenue. Is there a particular reason that maybe that went up a little bit,  
6 given that it went down the past couple of years during Q1? Thanks.

7 [BRUNER:] No. I would say there's nothing unusual in the inventory. We  
8 definitely feel that we need that inventory in order to service our customers and to  
9 deliver the plan that we have, both for Q2 and for the rest of the year. And, of  
10 course, we have a wide variety of different nodes of memory in there in order to  
11 service the growing diversity of our product portfolio.

12 22. On April 22, 2014, SanDisk announced the availability of its 1Z-nanometer (15nm)  
13 technology in a press release which stated in part:

14 SanDisk Corporation, a global leader in flash storage solutions, today announced the  
15 availability of its 1Z-nanometer (nm) technology, the most advanced NAND flash  
16 process node in the world. The 15nm technology will ramp on both two bits-per-cell  
17 (X2) and three bits-per-cell (X3) NAND flash memory architectures with production  
18 ramp to begin in the second half of 2014.

19 "We are thrilled to continue our technology leadership with the industry's  
20 most advanced flash memory process node, enabling us to deliver the world's  
21 smallest and most cost effective 128 gigabit chips," said Dr. Siva Sivaram, senior  
22 vice president, memory technology, SanDisk. "We are delighted that these new  
23 chips will allow us to further differentiate and expand our portfolio of NAND flash  
24 solutions."

25 23. On June 16, 2014, SanDisk announced it had entered into a definitive agreement to  
26 acquire Fusion-io, "a leading developer of flash-based PCIe hardware and software solutions that  
27 enhance application performance in enterprise and hyperscale datacenters." The acquisition would  
28 be an all-cash transaction valued at approximately \$1.1 billion, net of cash assumed. The release  
quoted defendant Mehrotra in part:

"Fusion-io will accelerate our efforts to enable the flash-transformed data  
center, helping companies better manage increasingly heavy data workloads at a  
lower total cost of ownership . . . . Customers will benefit from the addition of  
Fusion-io's leading PCIe solutions to SanDisk's vertically integrated business model.  
We look forward to working with the world-class engineering and go-to-market  
teams from Fusion-io to provide high-value solutions to customers around the  
world."

1           24.     On June 16, 2014, SanDisk held a conference call for analysts, media representatives  
2 and investors to discuss its planned acquisition of Fusion-io, during which defendants represented  
3 the following:

4                     [MEHROTRA:] With the addition of Fusion-io's PCIe hardware and  
5 software solutions, SanDisk will have the broadest enterprise flash solution portfolio  
6 in the industry. We are very excited about the addition of Fusion-io's high-caliber  
7 engineering and go-to-market teams, which will significantly bolster our ability to  
8 serve our customers. At the same time, SanDisk's integration model will further  
9 enhance the quality, performance and reliability of these enterprise solutions while  
10 providing customers with valuable continuity of supply.

11                                     \*       \*       \*

12                     [BRUNER:] Over time, we expect to generate synergies related to revenue,  
13 cost of goods sold, and expenses. In terms of revenue, the acquisition of Fusion-io  
14 will accelerate our ability to grow in the enterprise market, with the broadest SSD  
15 solutions portfolio in the industry, applied across a broader customer base. We  
16 expect to derive synergies in cost of goods sold from SanDisk's scale of operation  
17 and from transitioning to captive flash over time, although we will also use this  
18 opportunity to evaluate the possibility of using non-captive flash for a subset of  
19 Fusion-io's products. We will also have modest operating expense synergies,  
20 primarily related to the elimination of duplicative public company costs.

21           25.     On July 16, 2014, SanDisk issued a press release announcing its second quarter fiscal  
22 2014 financial results. The Company reported net income of \$274 million, or \$1.14 diluted EPS,  
23 and revenue of \$1.63 billion for the second quarter ended June 29, 2014. The release stated in part:

24                     "We are pleased to deliver record second quarter revenue in both enterprise  
25 and client SSDs, as well as retail products," said Sanjay Mehrotra, president and  
26 chief executive officer of SanDisk. "SSD solutions comprised 29 percent of our  
27 second quarter revenue, compared to 16 percent in the year ago quarter,  
28 demonstrating strong progress in driving our strategic priorities. Our results position  
us well to deliver another record year in 2014."

29           26.     After releasing its second quarter fiscal 2014 financial results on July 16, 2014,  
30 SanDisk hosted a conference call for analysts, media representatives and investors during which  
31 defendants represented the following:

32                     [MEHROTRA:] Our results highlight ongoing strong execution, and further  
33 progress in the strategic shift of our revenue mix to SSD solutions. SSD has reached  
34 29% of our second-quarter revenue, driven by record revenue in both client and  
35 enterprise SSDs, and we are on track to exceed our 2014 revenue mix goal for our  
36 SSD solutions. Our enterprise SSD revenue more than doubled on a year-over-year  
37 basis, and grew over 30% sequentially, driven by gains in both SAS and SATA  
38 products. Our expanding portfolio of innovative enterprise flash solutions uniquely



1 positions us as a preferred partner to a broad range of customers, who are  
2 increasingly utilizing flash to optimize their workloads.

3 \* \* \*

4 In client SSDs, we achieved another record quarterly revenue. Our broad  
5 portfolio of SATA and PCIe client SSD solutions continues to serve all leading PC  
6 OEMs well, and we are making excellent progress in qualifying our 1Y nanometer  
7 client SSDs at many of these OEMs.

8 \* \* \*

9 We continue to make very good progress with our 15-nanometer technology  
10 development, and we expect to begin the production ramp towards the end of this  
11 year, with meaningful contribution to product shipments in the Q1 2015 time frame.

12 27. On July 16, 2014, the price of SanDisk stock reached its Class Period high of \$107.83  
13 per share.

14 28. On October 16, 2014, SanDisk issued a press release announcing its third quarter  
15 fiscal 2014 financial results. The Company reported net income of \$263 million, or \$1.09 diluted  
16 EPS, and revenue of \$1.75 billion, an increase of 7% on a year-over-year basis for the third quarter  
17 ended September 28, 2014. The release stated in part:

18 “Third quarter results reflect the strength of our diversified product portfolio,  
19 broad customer engagements and solid execution,” said Sanjay Mehrotra, president  
20 and chief executive officer. “Demand for NAND flash continues to be strong across  
21 mobile, client and enterprise, where SanDisk’s innovations are creating significant  
22 opportunities. As we focus on closing a record 2014, we also look forward to  
23 building upon our success in 2015.”

24 29. After releasing its third quarter fiscal 2014 financial results on October 16, 2014,  
25 SanDisk hosted a conference call for analysts, media representatives and investors during which  
26 defendants represented the following:

27 [MEHROTRA:] We’re very pleased to report record revenue, strong  
28 earnings and cash flow, and to have returned more than \$0.5 billion of capital to  
shareholders during the quarter.

\* \* \*

The Fusion-io business performed in line with our expectations post  
acquisition. On the product front, multiple OEMs have now qualified and are  
offering our next-generation Fusion-io PCIe products. Our plan is to continue  
supporting the majority of Fusion-io products on non-captive NAND in 2015.

1 \* \* \*

2 Following the completion of the Fusion-io acquisition in late July, we have  
3 made excellent progress in integrating Fusion-io into SanDisk. To best realize the  
4 capabilities, talent, and scale of the two teams, we have decided to accelerate the  
5 combination of the legacy SanDisk enterprise storage solution's group and the newly  
6 added Fusion-io team by forming one enterprise storage organization under John  
7 Scaramuzzo.

8 \* \* \*

9 As we discussed last quarter, our mix of 1Y nanometer production is  
10 relatively consistent through the second half of 2014, at 60%, while we maintain a  
11 long tail of 19-nanometer production for strategic customers and begin our 15-  
12 nanometer production ramp in Q4. Our estimate of industry supply-bit growth for  
13 2014 is slightly below 40%, and SanDisk captive bit supply will be slightly below  
14 25% given the long tail of 19-nanometer production. For 2015, both 19-nanometer  
15 and 1Y production will continue even as we ramp 15-nanometer.

16 \* \* \*

17 [ANALYST:] As the follow-up, I think in the past when the Company's gone  
18 through a manufacturing transition, there is generally, once it starts rolling, about a  
19 10% to 15% per quarter mix towards that new node. Is that the right framework to  
20 look at for the 15-nanometer ramp? If so, when would the Company expect to see  
21 the current tightness that you're seeing in the business alleviate somewhat, so you are  
22 able to capture all of the demand that you see out there?

23 [MEHROTRA:] The 1Z technology node will be primarily becoming  
24 meaningful starting from Q1 of next year, and will continue to ramp up into  
25 production throughout the course of 2015 timeframe. As Judy pointed out, it is also  
26 about qualifying various products with our customers using that 1Z technology node.

27 I would expect the ramp of production of 1Z technology nodes at the end of  
28 next year to achieve similar percentage in terms of bit output mix as 1Y has now.  
That means 1Z technology mix at the end of next year to be around 60%, and as we  
said, production ramp is starting this quarter, becoming meaningful from Q1 and  
continuing to ramp during the course of the year. Again, that is all baked into our  
revenue bit as well as our supply bit guidance.

30. On November 10, 2014, SanDisk attended the RBC Capital Markets Technology,  
Internet Media & Telecom Conference for analysts, the media and investors, during which  
defendants represented the following:

[ANALYST:] [I]f we look at 2015 your bit growth forecast 30% to 40%, in line with  
the industry, so now it's no longer ceding what I would say bit market carriers you  
might have done this year. How do we think about what will be the drivers next year  
for your bit growth to be at the upper or lower end of that range?

[BRUNER:] Well, as I just described, what the customer demand is in the  
various segments will be a key driver of exactly where we decide to land the bit  
growth, but overall, in terms of what's driving the bit growth out of the fabs, really

1 there's three key factors for next year. The first one will be technology transition.  
2 The second will be an increasing mix of X3 memory in our solutions portfolio next  
year. And then the third is some continued modest growth in wafer capacity.

3 And maybe just a couple comments on each of those. In terms of our tech  
4 transition, we have started our ramp of our 1V node, which is 15 nanometer, and we  
will ramp that across next year. We expect that over the course of the year the  
5 proportion of output of our 15 nanometer in 2015 will actually be somewhat similar  
to the proportion of 1Y, what 1Y was in 2014.

6 So in essence, you can kind of look at it that we are transitioning from 24 and  
7 19 to 15 nanometer. Actually 1Y will be about the same proportion in terms of total  
output in 2014 and 2015, so that gives us a strong amount of bit growth.

8 31. On January 12, 2015, before the market opened, SanDisk issued a press release  
9 providing its preliminary revenue results for the fourth quarter of fiscal 2014. The Company  
10 reported lower-than-expected revenue and margins for the fourth quarter of fiscal 2014, with  
11 revenues expected to be \$1.73 billion, lower than the previously announced revenue range of \$1.8-  
12 \$1.85 billion. The preliminary results were also lower than analysts' estimates of revenue of \$1.83  
13 billion for the quarter. The press release stated in part:

14 The company estimates total revenue to be approximately \$1.73 billion, lower than  
15 the previously forecasted revenue range of \$1.80 billion to \$1.85 billion. The lower  
revenue was primarily due to weaker than expected sales of retail and iNAND  
16 products. Non-GAAP gross margin for the fourth fiscal quarter is expected to be  
approximately 45% compared to the previously guided range of 47% to 49%.

17 32. On this news, the price SanDisk stock plummeted \$13.47 per share, to close at \$83.57  
18 per share on January 12, 2015, a decline of nearly 14% on volume of 23.2 million shares.

19 33. On January 21, 2015, SanDisk issued a press release announcing its fourth quarter  
20 and fiscal 2014 financial results. The Company reported net income of \$202 million, or \$0.86  
21 diluted EPS, and revenue of \$1.74 billion for the fourth quarter ended December 28, 2014.  
22 Additionally, the Company reported net income of \$1.01 billion, or \$4.23 diluted EPS, and revenue  
23 of \$6.63 billion for fiscal 2014. The release stated in part:

24 "We delivered record revenue in 2014 with continued progress in shifting our  
25 portfolio towards high value solutions," said Sanjay Mehrotra, president and chief  
executive officer of SanDisk. "Our SSD solutions reached 29 percent of revenue in  
26 2014, with strong growth from both client and enterprise SSDs. We are disappointed  
with our fourth quarter results, which were impacted primarily by supply constraints.  
27 We believe that NAND flash industry fundamentals are healthy, and we expect our  
financial results to improve as we move through 2015."

1           34.     The Company acknowledged that it had lost a large customer which most analysts  
2 believed was Apple.

3           35.     On this news, the price of SanDisk stock declined \$1.54 per share, to close at \$78.90  
4 per share on January 22, 2015, a one-day decline of 1.9% on volume of 16.9 million shares.

5           36.     On March 26, 2015, SanDisk issued a press release providing its business update.  
6 The Company disclosed that it expected revenue for the fiscal first quarter of 2015 “to be  
7 approximately \$1.3 billion, depending on final sell-through results, compared to the previously  
8 forecasted revenue range of \$1.40 billion to \$1.45 billion.” SanDisk disclosed that this reduction in  
9 guidance was “primarily due to certain product qualification delays, lower than expected sales of  
10 enterprise products and lower pricing in some areas of the business.” Additionally, the Company  
11 announced that it expected continued impact to its 2015 financial results from these factors as well  
12 as the previously identified supply challenges, and forecast 2015 revenue to be lower than the  
13 previous guidance. The release stated in pertinent part:

14           SanDisk Corporation, a global leader in flash storage solutions, today announced that  
15 it expects its revenue for the first fiscal quarter, which will end on March 29, 2015, to  
16 be approximately \$1.3 billion, depending on final sell-through results, compared to  
the previously forecasted revenue range of \$1.40 billion to \$1.45 billion.

17           The change in first quarter revenue estimate is primarily due to certain  
18 product qualification delays, lower than expected sales of enterprise products and  
19 lower pricing in some areas of the business. The Company expects continued impact  
to its 2015 financial results from these factors as well as the previously identified  
supply challenges, and now forecasts 2015 revenue to be lower than the previous  
guidance.

20           Other forecasts for the quarter and the year are withdrawn, and the Company  
21 will provide an update during its first quarter earnings call on April 15, 2015.  
SanDisk will also reschedule its previously announced May 2015 Investor Day to a  
later date.

22           “We are disappointed with our financial outlook,” said Sanjay Mehrotra,  
23 president and chief executive officer, SanDisk. “We will work through these  
24 headwinds, leveraging our compelling product roadmap and broadening customer  
25 base. We believe our growth prospects remain strong and we are encouraged by the  
progress we are making in our 3D NAND technology.”

26           37.     After this news, the Company’s stock price plummeted \$14.98 per share, to close at  
27 \$66.20 per share on March 26, 2015, a one-day decline of 18% on volume of 32.3 million shares.  
28

1           38.     Then, on April 15, 2015, after the market closed, SanDisk issued a press release  
2 announcing its first quarter fiscal 2015 financial results. The Company reported net income of \$39  
3 million, or \$0.17 diluted EPS, and revenue of \$1.33 billion for the first quarter ended March 29,  
4 2015. The release stated in part:

5           First quarter GAAP results include a \$61 million impairment charge for an in-process  
6 R&D project from the Fusion-io acquisition and \$41 million of restructuring and  
7 other charges. . . .

8           . . . First quarter non-GAAP results include \$41 million of restructuring and  
9 other charges. . . .

10           “We are disappointed with our financial and operational performance and are  
11 quickly taking aggressive measures to regain the excellence in execution that we  
12 have delivered in the past,” said Sanjay Mehrotra, president and chief executive  
13 officer, SanDisk. “Our top priorities for 2015 are to strengthen our product roadmap  
14 and rebuild our momentum across the business. We are excited about the long-term  
15 opportunities available to us and believe we are uniquely positioned in the industry to  
16 deliver innovative solutions to our growing customer base.”

17           39.     As a result of this news, SanDisk stock dropped \$3.21 per share to close at \$67.91 per  
18 share on April 16, 2015, a one-day decline of nearly 5% on volume of 23.6 million shares.

19           40.     In fact, during the Class Period, defendants knew or deliberately disregarded and  
20 failed to disclose that: (i) the Company was experiencing production qualification delays on certain  
21 of its key products; (ii) the Company was experiencing lower than expected sales of enterprise  
22 products; (iii) the Company was vulnerable to lower pricing in some areas of its business;  
23 (iv) Fusion-io was not being integrated into SanDisk as successfully as represented and its assets  
24 were impaired; (v) the Company’s 15 nm technology was not on track to become available on  
25 defendants’ stated timetable; and (vi) the Company would be forced to announce drastically lower  
26 first quarter revenue estimates compared to prior forecasts and withdraw its 2015 forecasts.

27           41.     As a result of defendants’ false statements, SanDisk securities traded at artificially  
28 inflated prices during the Class Period. While SanDisk’s stock price was artificially inflated, the  
Company’s top officers and directors were able to sell over \$35.8 million worth of their SanDisk  
stock, including \$10.6 million worth of stock sold by the Company’s CFO and nearly \$10.6 million  
worth of stock sold by the Company’s CEO. However, after the above revelations seeped into the

1 market, the Company's securities were hammered by massive sales, sending the Company's stock  
2 price down 37% from its Class Period high.

### 3 **LOSS CAUSATION/ECONOMIC LOSS**

4 42. During the Class Period, as detailed herein, the defendants made false and misleading  
5 statements by misrepresenting the Company's business and prospects and engaged in a scheme to  
6 deceive the market and a course of conduct that artificially inflated the prices of SanDisk publicly  
7 traded securities and operated as a fraud or deceit on Class Period purchasers of SanDisk publicly  
8 traded securities. Later, when the defendants' prior misrepresentations and fraudulent conduct  
9 became apparent to the market, the prices of SanDisk publicly traded securities fell precipitously, as  
10 the prior artificial inflation came out of the prices over time. As a result of their purchases of  
11 SanDisk publicly traded securities during the Class Period, plaintiff and other members of the Class  
12 suffered economic loss, *i.e.*, damages, under the federal securities laws.  
13

### 14 **APPLICABILITY OF THE PRESUMPTION OF RELIANCE 15 AND FRAUD ON THE MARKET**

16 43. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-  
17 market doctrine in that, among other things:

18 (a) The defendants made public misrepresentations or failed to disclose material  
19 facts during the Class Period;

20 (b) The omissions and misrepresentations were material;

21 (c) The Company's securities traded in an efficient market;

22 (d) The misrepresentations alleged would tend to induce a reasonable investor to  
23 misjudge the value of the Company's securities; and  
24

25 (e) Plaintiff and other members of the Class purchased SanDisk securities  
26 between the time defendants misrepresented or failed to disclose material facts and the time the true  
27 facts were disclosed, without knowledge of the misrepresented or omitted facts.  
28

1 44. At all relevant times, the market for SanDisk securities was efficient for the following  
2 reasons, among others:

- 3 (a) As a regulated issuer, SanDisk filed periodic public reports with the SEC; and  
4 (b) SanDisk regularly communicated with public investors via established market  
5 communication mechanisms, including through regular disseminations of press releases on the major  
6 news wire services and through other wide-ranging public disclosures, such as communications with  
7 the financial press, securities analysts and other similar reporting services.  
8

9 **CLASS ACTION ALLEGATIONS**

10 45. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules  
11 of Civil Procedure on behalf of all persons who purchased or otherwise acquired SanDisk publicly  
12 traded securities during the Class Period (the "Class"). Excluded from the Class are defendants and  
13 their families, the officers and directors of the Company, at all relevant times, members of their  
14 immediate families and their legal representatives, heirs, successors or assigns and any entity in  
15 which defendants have or had a controlling interest.  
16

17 46. The members of the Class are so numerous that joinder of all members is  
18 impracticable. The stock is actively traded on the NASDAQ and there are nearly 208 million shares  
19 of SanDisk stock outstanding. While the exact number of Class members is unknown to plaintiff at  
20 this time and can only be ascertained through appropriate discovery, plaintiff believes that there are  
21 hundreds of members in the proposed Class. Record owners and other members of the Class may be  
22 identified from records maintained by SanDisk or its transfer agent and may be notified of the  
23 pendency of this action by mail, using the form of notice similar to that customarily used in  
24 securities class actions.  
25

26 47. Common questions of law and fact predominate and include: (i) whether defendants  
27 violated the 1934 Act; (ii) whether defendants omitted and/or misrepresented material facts;  
28

1 (iii) whether defendants knew or recklessly disregarded that their statements were false; and  
2 (iv) whether defendants' statements and/or omissions artificially inflated the prices of SanDisk  
3 securities and the extent and appropriate measure of damages.

4 48. Plaintiff's claims are typical of the claims of the members of the Class as all members  
5 of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is  
6 complained of herein.

7  
8 49. Plaintiff will fairly and adequately protect the interests of the members of the Class  
9 and has retained counsel competent and experienced in class and securities litigation.

10 50. A class action is superior to all other available methods for the fair and efficient  
11 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the  
12 damages suffered by individual Class members may be relatively small, the expense and burden of  
13 individual litigation make it impossible for members of the Class to individually redress the wrongs  
14 done to them. There will be no difficulty in the management of this action as a class action.  
15

## 16 **COUNT I**

### 17 **For Violation of §10(b) of the 1934 Act and Rule 10b-5** 18 **Against All Defendants**

19 51. Plaintiff incorporates all allegations in ¶¶1-50 above by reference.

20 52. During the Class Period, defendants disseminated or approved the false statements  
21 specified above, which they knew or recklessly disregarded were misleading in that they contained  
22 misrepresentations and failed to disclose material facts necessary in order to make the statements  
23 made, in light of the circumstances under which they were made, not misleading.

24 53. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

25 (a) Employed devices, schemes, and artifices to defraud;  
26  
27  
28



1 (b) Made untrue statements of material facts or omitted to state material facts  
2 necessary in order to make the statements made, in light of the circumstances under which they were  
3 made, not misleading; or

4 (c) Engaged in acts, practices, and a course of business that operated as a fraud or  
5 deceit upon plaintiff and others similarly situated in connection with their purchases of SanDisk  
6 publicly traded securities during the Class Period.  
7

8 54. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of  
9 the market, they paid artificially inflated prices for SanDisk publicly traded securities. Plaintiff and  
10 the Class would not have purchased SanDisk publicly traded securities at the prices they paid, or at  
11 all, if they had been aware that the market prices had been artificially and falsely inflated by  
12 defendants' misleading statements.  
13

14 55. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the  
15 other members of the Class suffered damages in connection with their purchases of SanDisk publicly  
16 traded securities during the Class Period.

17 **COUNT II**

18 **For Violation of §20(a) of the 1934 Act**  
19 **Against All Defendants**

20 56. Plaintiff incorporates all allegations in ¶¶1-55 above by reference.

21 57. The Individual Defendants acted as controlling persons of SanDisk within the  
22 meaning of §20(a) of the 1934 Act. By virtue of their positions with the Company, and ownership of  
23 SanDisk stock, the Individual Defendants had the power and authority to cause SanDisk to engage in  
24 the wrongful conduct complained of herein. SanDisk controlled the Individual Defendants and all of  
25 its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.  
26

27 **PRAYER FOR RELIEF**

28 WHEREFORE, plaintiff prays for judgment as follows:

