

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions; unaudited)

	<b>Jan. 1, 2016</b>	<b>July 3, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,363	\$ 5,024
Short-term investments	497	262
Accounts receivable, net	1,650	1,532
Inventories	1,238	1,368
Other current assets	200	331
Total current assets	8,948	8,517
Property, plant and equipment, net	2,801	2,965
Goodwill	2,766	2,766
Other intangible assets, net	292	332
Other non-current assets	659	601
Total assets	\$ 15,466	\$ 15,181

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 1,806	\$ 1,881
Accrued arbitration award	32	-
Accrued expenses	505	470
Accrued compensation	315	330
Accrued warranty	144	150
Revolving credit facility	255	255
Current portion of long-term debt	188	156
Total current liabilities	3,245	3,242
Long-term debt	2,062	2,156
Other liabilities	602	564
Total liabilities	5,909	5,962
Total shareholders' equity	9,557	9,219
Total liabilities and shareholders' equity	\$ 15,466	\$ 15,181

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share amounts; unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>
Revenue, net	\$ 3,317	\$ 3,888	\$ 6,677	\$ 7,831
Cost of revenue	2,411	2,778	4,816	5,572
Gross profit	<u>906</u>	<u>1,110</u>	<u>1,861</u>	<u>2,259</u>
Operating expenses:				
Research and development	389	426	774	863
Selling, general and administrative	207	164	399	384
Charges related to arbitration award	32	1	32	15
Employee termination, asset impairment and other charges	27	53	83	62
Total operating expenses	<u>655</u>	<u>644</u>	<u>1,288</u>	<u>1,324</u>
Operating income	251	466	573	935
Net interest and other	(7)	(8)	(15)	(17)
Income before income taxes	244	458	558	918
Income tax expense (benefit)	(7)	20	24	57
Net income	<u>\$ 251</u>	<u>\$ 438</u>	<u>\$ 534</u>	<u>\$ 861</u>
Income per common share:				
Basic	<u>\$ 1.08</u>	<u>\$ 1.88</u>	<u>\$ 2.31</u>	<u>\$ 3.70</u>
Diluted	<u>\$ 1.07</u>	<u>\$ 1.84</u>	<u>\$ 2.28</u>	<u>\$ 3.60</u>
Weighted average shares outstanding:				
Basic	<u>232</u>	<u>233</u>	<u>231</u>	<u>233</u>
Diluted	<u>234</u>	<u>238</u>	<u>234</u>	<u>239</u>

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions; unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>
<b>Operating Activities</b>				
Net income	\$ 251	\$ 438	\$ 534	\$ 861
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	252	290	488	579
Stock-based compensation	37	41	79	80
Deferred income taxes	22	21	15	31
Gain from insurance recovery	-	(37)	-	(37)
Loss on disposal of assets	6	8	6	12
Non-cash portion of employee termination, asset impairment and other charges	-	18	18	19
Changes in operating assets and liabilities, net	30	(536)	3	(475)
Net cash provided by operating activities	<u>598</u>	<u>243</u>	<u>1,143</u>	<u>1,070</u>
<b>Investing Activities</b>				
Purchases of property, plant and equipment	(149)	(146)	(300)	(306)
Acquisitions, net of cash acquired	-	(6)	-	(6)
Purchases of investments	(172)	(475)	(408)	(595)
Proceeds from sales and maturities of investments	142	464	266	630
Proceeds from sale of property, plant and equipment	-	7	-	7
Other investing activities, net	(2)	28	(12)	16
Net cash used in investing activities	<u>(181)</u>	<u>(128)</u>	<u>(454)</u>	<u>(254)</u>
<b>Financing Activities</b>				
Employee stock plans, net	12	62	4	64
Repurchases of common stock	-	(309)	(60)	(532)
Dividends paid to shareholders	(116)	(94)	(231)	(187)
Repayment of debt	(31)	(31)	(63)	(63)
Net cash used in financing activities	<u>(135)</u>	<u>(372)</u>	<u>(350)</u>	<u>(718)</u>
Net increase (decrease) in cash and cash equivalents	282	(257)	339	98
Cash and cash equivalents, beginning of period	5,081	5,159	5,024	4,804
Cash and cash equivalents, end of period	<u>\$ 5,363</u>	<u>\$ 4,902</u>	<u>\$ 5,363</u>	<u>\$ 4,902</u>

**WESTERN DIGITAL CORPORATION**  
**GAAP TO NON-GAAP RECONCILIATION**

(in millions, except per share amounts; unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>	<b>Jan. 1, 2016</b>	<b>Jan. 2, 2015</b>
GAAP gross profit	\$ 906	\$ 1,110	\$ 1,861	\$ 2,259
Charges related to cost saving initiatives	22	-	22	-
Other charges	-	39	-	39
Amortization of acquired intangible assets	16	38	33	77
Non-GAAP gross profit	<u>\$ 944</u>	<u>\$ 1,187</u>	<u>\$ 1,916</u>	<u>\$ 2,375</u>
GAAP gross margin	<u>27.3%</u>	<u>28.5%</u>	<u>27.9%</u>	<u>28.8%</u>
Non-GAAP gross margin	<u>28.5%</u>	<u>30.5%</u>	<u>28.7%</u>	<u>30.3%</u>
Revenue, net	<u>\$ 3,317</u>	<u>\$ 3,888</u>	<u>\$ 6,677</u>	<u>\$ 7,831</u>
GAAP net income	\$ 251	\$ 438	\$ 534	\$ 861
Non-GAAP adjustments:				
Amortization of acquired intangible assets	24	45	49	91
Employee termination, asset impairment and other charges	27	53	83	62
Charges related to cost saving initiatives	37	-	37	-
Charges related to arbitration award	32	1	32	15
Acquisition-related charges	27	-	27	-
Insurance recoveries	-	(37)	-	(37)
Other charges	4	39	6	51
Income tax adjustments	(28)	-	(28)	-
Non-GAAP net income	<u>\$ 374</u>	<u>\$ 539</u>	<u>\$ 740</u>	<u>\$ 1,043</u>
Diluted net income per common share:				
GAAP	<u>\$ 1.07</u>	<u>\$ 1.84</u>	<u>\$ 2.28</u>	<u>\$ 3.60</u>
Non-GAAP	<u>\$ 1.60</u>	<u>\$ 2.26</u>	<u>\$ 3.16</u>	<u>\$ 4.36</u>
Weighted average shares outstanding:				
Diluted	<u>234</u>	<u>238</u>	<u>234</u>	<u>239</u>

To supplement the condensed consolidated financial statements presented in accordance with U.S. generally accepted accounting principles ("GAAP"), the table above sets forth Non-GAAP gross margin, Non-GAAP net income and Non-GAAP diluted net income per common share ("Non-GAAP measures"). These Non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP and may be different from Non-GAAP measures used by other companies. Western Digital Corporation believes the presentation of Non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors for measuring the Company's earnings performance and comparing it against prior periods.

These Non-GAAP measures exclude amortization of acquired intangible assets; employee termination, asset impairment and other charges; charges related to cost saving initiatives; charges related to arbitration award; acquisition-related charges; insurance recoveries; other charges; and income tax adjustments. We exclude these items for purposes of calculating these Non-GAAP measures to facilitate a more meaningful evaluation of our current operating performance and comparisons to our operating performance in prior periods.

As described above, we exclude the following items from our Non-GAAP measures:

Amortization of acquired intangible assets. We incur expenses from the amortization of acquired intangible assets over their economic lives. Such charges are significantly impacted by the timing and magnitude of our acquisitions and any related impairment charges.

Employee termination, asset impairment and other charges. From time-to-time, in order to realign our operations with anticipated market demand or to achieve cost synergies from the integration of acquisitions, we may terminate employees and/or restructure our operations. From time-to-time, we may also incur charges from the impairment of intangible assets and other long-lived assets. These charges (including any reversals of charges recorded in prior periods) are inconsistent in amount and frequency and are not a part of the ongoing operation of our business.

Charges related to cost saving initiatives. In connection with the transformation of our business, starting in the 2nd quarter of fiscal 2016, we incur charges related to cost saving initiatives which do not qualify for special accounting treatment as exit or disposal activities. These charges, which are not part of the ongoing operation of our business, primarily relate to costs associated with rationalizing our channel partners or vendors, transforming our information systems infrastructure, integrating our product roadmap, and accelerated depreciation on assets.

Charges related to arbitration award. In relation to an arbitration award for claims brought against the Company by Seagate Technology LLC, which was satisfied in October 2014, and the related dispute over the calculation of post-award interest, we have recorded loss contingencies. The resulting expense is inconsistent in amount and frequency.

Acquisition-related charges. In connection with our business combinations, we incur expenses which we would not have otherwise incurred as part of our business operations. These expenses include third-party professional service and legal fees, third-party integration services, severance costs, non-cash adjustments to the fair value of acquired inventory, contract termination costs, retention bonuses, and changes to the fair value of contingent consideration. We may also experience other one-time accounting impacts in connection with these transactions. These charges and impacts are related to acquisitions, are inconsistent in amount and frequency, and have no direct correlation to the operation of our business.

Insurance recoveries. From time-to-time, we receive insurance recoveries related to losses or other events which occurred in a prior period. Such recoveries are inconsistent in amount and frequency.

Other charges. From time-to-time, we sell investments or other assets which are not considered strategic or necessary to our business; are a party to legal or arbitration proceedings, which could result in an expense or benefit due to settlements, final judgments, or accruals for loss contingencies; or incur other charges or gains which are not a part of the ongoing operation of our business. The resulting expense or benefit is inconsistent in amount and frequency.

Income tax adjustments. Income tax adjustments reflect the difference between income taxes based on a forecasted annual non-GAAP tax rate and a forecasted annual GAAP tax rate as a result of the timing of certain non-GAAP pre-tax adjustments.

## CASH FROM OPERATING ACTIVITIES TO FREE CASH FLOW RECONCILIATION

(in millions; unaudited)

	Three Months Ended		Six Months Ended	
	Jan. 1, 2016	Jan. 2, 2015	Jan. 1, 2016	Jan. 2, 2015
Net cash provided by operating activities	\$ 598	\$ 243	\$ 1,143	\$ 1,070
Purchases of property, plant and equipment	(149)	(146)	(300)	(306)
Free cash flow	<u>\$ 449</u>	<u>\$ 97</u>	<u>\$ 843</u>	<u>\$ 764</u>

To supplement the condensed consolidated financial statements presented in accordance with GAAP, the table above sets forth free cash flow, a Non-GAAP measure. We define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. This Non-GAAP measure is not in accordance with, or an alternative for, measures prepared in accordance with GAAP and may be different from Non-GAAP measures used by other companies.

We consider free cash flow to be a liquidity measure that, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors about the amount of cash generated by the business that, after the acquisition of property, plant and equipment can be used for strategic opportunities including, among others, investing in the Company's business, making strategic acquisitions, strengthening the balance sheet, repaying debt, paying dividends and repurchasing stock. Free cash flow should not be construed as an alternative to cash flows from operations or other cash flow measurements determined in accordance with GAAP.