

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

(in millions; unaudited)

	<b>Mar. 31, 2017</b>	<b>July 1, 2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,652	\$ 8,151
Short-term investments	25	227
Accounts receivable, net	1,948	1,461
Inventories	2,254	2,129
Other current assets	434	616
Total current assets	10,313	12,584
Property, plant and equipment, net	3,099	3,503
Notes receivable and investments in Flash Ventures	1,291	1,171
Goodwill	10,012	9,951
Other intangible assets, net	4,144	5,034
Other non-current assets	589	619
Total assets	\$ 29,448	\$ 32,862

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 2,185	\$ 1,888
Accounts payable to related parties	194	168
Accrued expenses	1,073	995
Accrued compensation	480	392
Accrued warranty	196	172
Bridge loan	-	2,995
Current portion of long-term debt	181	339
Total current liabilities	4,309	6,949
Long-term debt	12,907	13,660
Other liabilities	1,201	1,108
Total liabilities	18,417	21,717
Total shareholders' equity	11,031	11,145
Total liabilities and shareholders' equity	\$ 29,448	\$ 32,862

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

(in millions, except per share amounts; unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Mar. 31, 2017</b>	<b>Apr. 1, 2016</b>	<b>Mar. 31, 2017</b>	<b>Apr. 1, 2016</b>
Revenue, net	\$ 4,649	\$ 2,822	\$ 14,251	\$ 9,499
Cost of revenue	3,126	2,069	9,860	6,885
Gross profit	<u>1,523</u>	<u>753</u>	<u>4,391</u>	<u>2,614</u>
Operating expenses:				
Research and development	613	359	1,837	1,133
Selling, general and administrative	346	166	1,100	565
Charges related to arbitration award	-	-	-	32
Employee termination, asset impairment and other charges	39	140	152	223
Total operating expenses	<u>998</u>	<u>665</u>	<u>3,089</u>	<u>1,953</u>
Operating income	525	88	1,302	661
Interest and other expense, net	<u>(221)</u>	<u>(8)</u>	<u>(948)</u>	<u>(23)</u>
Income before taxes	304	80	354	638
Income tax expense	56	6	237	30
Net income	<u>\$ 248</u>	<u>\$ 74</u>	<u>\$ 117</u>	<u>\$ 608</u>
Income per common share:				
Basic	<u>\$ 0.86</u>	<u>\$ 0.32</u>	<u>\$ 0.41</u>	<u>\$ 2.62</u>
Diluted	<u>\$ 0.83</u>	<u>\$ 0.32</u>	<u>\$ 0.40</u>	<u>\$ 2.60</u>
Weighted average shares outstanding:				
Basic	<u>289</u>	<u>233</u>	<u>287</u>	<u>232</u>
Diluted	<u>299</u>	<u>234</u>	<u>295</u>	<u>234</u>

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

(in millions; unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Mar. 31, 2017</b>	<b>Apr. 1, 2016</b>	<b>Mar. 31, 2017</b>	<b>Apr. 1, 2016</b>
<b>Operating Activities</b>				
Net income	\$ 248	\$ 74	\$ 117	\$ 608
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	560	246	1,582	734
Stock-based compensation	102	42	303	121
Deferred income taxes	(56)	(32)	61	(17)
Loss on disposal of assets	2	7	12	13
Write-off of issuance costs and amortization of debt discounts	17	1	275	3
Loss on convertible debt	1	-	6	-
Non-cash portion of employee termination, asset impairment and other charges	-	18	13	36
Other non-cash operating activities, net	16	-	58	-
Changes in operating assets and liabilities, net	108	129	71	130
Net cash provided by operating activities	<u>998</u>	<u>485</u>	<u>2,498</u>	<u>1,628</u>
<b>Investing Activities</b>				
Purchases of property, plant and equipment, net	(103)	(133)	(432)	(433)
Activity related to Flash Ventures, net	(154)	-	(224)	-
Investment activity, net	136	587	231	445
Strategic investments and other, net	(9)	(11)	(21)	(23)
Net cash provided by (used in) investing activities	<u>(130)</u>	<u>443</u>	<u>(446)</u>	<u>(11)</u>
<b>Financing Activities</b>				
Employee stock plans, net	(4)	14	102	17
Proceeds from acquired call option	-	-	61	-
Repurchases of common stock	-	-	-	(60)
Dividends paid to shareholders	(144)	(116)	(428)	(347)
Proceeds from debt, net of issuance costs	3,913	-	7,898	-
Repayment of debt	(3,925)	(302)	(12,179)	(364)
Net cash used in financing activities	<u>(160)</u>	<u>(404)</u>	<u>(4,546)</u>	<u>(754)</u>
Effect of exchange rate changes on cash	4	-	(5)	-
Net increase (decrease) in cash and cash equivalents	712	524	(2,499)	863
Cash and cash equivalents, beginning of period	4,940	5,363	8,151	5,024
Cash and cash equivalents, end of period	<u>\$ 5,652</u>	<u>\$ 5,887</u>	<u>\$ 5,652</u>	<u>\$ 5,887</u>

WESTERN DIGITAL CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	Mar. 31, 2017	Apr. 1, 2016	Mar. 31, 2017	Apr. 1, 2016
<b>Summary Reconciliation of Net Income:</b>				
<b>GAAP net income</b>	\$ 248	\$ 74	\$ 117	\$ 608
Amortization of acquired intangible assets	324	22	843	71
Stock-based compensation expense	98	36	293	112
Employee termination, asset impairment and other charges	39	140	152	223
Acquisition-related charges	2	16	35	43
Charges related to cost saving initiatives	28	49	114	86
Charges related to arbitration award	-	-	-	32
Convertible debt activity, net	1	-	7	-
Debt extinguishment costs	7	-	274	-
Other	6	(4)	20	(8)
Income tax adjustments	(37)	(16)	(16)	(35)
<b>Non-GAAP net income</b>	<u>\$ 716</u>	<u>\$ 317</u>	<u>\$ 1,839</u>	<u>\$ 1,132</u>
<b>GAAP cost of revenue</b>	\$ 3,126	\$ 2,069	\$ 9,860	\$ 6,885
Amortization of acquired intangible assets	(284)	(16)	(724)	(49)
Stock-based compensation expense	(13)	(4)	(37)	(13)
Acquisition-related charges	-	-	(18)	-
Charges related to cost saving initiatives	(6)	(25)	(44)	(47)
Other	-	2	(3)	5
<b>Non-GAAP cost of revenue</b>	<u>\$ 2,823</u>	<u>\$ 2,026</u>	<u>\$ 9,034</u>	<u>\$ 6,781</u>
<b>GAAP gross profit</b>	\$ 1,523	\$ 753	\$ 4,391	\$ 2,614
Amortization of acquired intangible assets	284	16	724	49
Stock-based compensation expense	13	4	37	13
Acquisition-related charges	-	-	18	-
Charges related to cost saving initiatives	6	25	44	47
Other	-	(2)	3	(5)
<b>Non-GAAP gross profit</b>	<u>\$ 1,826</u>	<u>\$ 796</u>	<u>\$ 5,217</u>	<u>\$ 2,718</u>
<b>GAAP operating expense</b>	\$ 998	\$ 665	\$ 3,089	\$ 1,953
Amortization of acquired intangible assets	(40)	(6)	(119)	(22)
Stock-based compensation expense	(85)	(32)	(256)	(99)
Employee termination, asset impairment and other charges	(39)	(140)	(152)	(223)
Acquisition-related charges	(2)	(16)	(17)	(43)
Charges related to arbitration award	-	-	-	(32)
Charges related to cost saving initiatives	(22)	(24)	(70)	(39)
Other	1	2	(4)	3
<b>Non-GAAP operating expense</b>	<u>\$ 811</u>	<u>\$ 449</u>	<u>\$ 2,471</u>	<u>\$ 1,498</u>
<b>GAAP operating income</b>	\$ 525	\$ 88	\$ 1,302	\$ 661
Cost of revenue adjustments	303	43	826	104
Operating expense adjustments	187	216	618	455
<b>Non-GAAP operating income</b>	<u>\$ 1,015</u>	<u>\$ 347</u>	<u>\$ 2,746</u>	<u>\$ 1,220</u>
<b>GAAP interest and other expense, net</b>	\$ (221)	\$ (8)	\$ (948)	\$ (23)
Convertible debt activity, net	1	-	7	-
Debt extinguishment costs	7	-	274	-
Other	7	-	13	-
<b>Non-GAAP interest and other expense, net</b>	<u>\$ (206)</u>	<u>\$ (8)</u>	<u>\$ (654)</u>	<u>\$ (23)</u>
<b>GAAP income tax expense</b>	\$ 56	\$ 6	\$ 237	\$ 30
Income tax adjustments	37	16	16	35
<b>Non-GAAP income tax expense</b>	<u>\$ 93</u>	<u>\$ 22</u>	<u>\$ 253</u>	<u>\$ 65</u>

	Three Months Ended		Nine Months Ended	
	Mar. 31, 2017	Apr. 1, 2016	Mar. 31, 2017	Apr. 1, 2016
<b>Summary Reconciliation of Net Income (cont'd):</b>				
<b>GAAP net income</b>	\$ 248	\$ 74	\$ 117	\$ 608
Cost of revenue adjustments	303	43	826	104
Operating expense adjustments	187	216	618	455
Interest and other expense, net adjustments	15	-	294	-
Income tax adjustments	(37)	(16)	(16)	(35)
<b>Non-GAAP net income</b>	<u>\$ 716</u>	<u>\$ 317</u>	<u>\$ 1,839</u>	<u>\$ 1,132</u>
<b>Diluted net income per common share:</b>				
GAAP	\$ 0.83	\$ 0.32	\$ 0.40	\$ 2.60
Non-GAAP	<u>\$ 2.39</u>	<u>\$ 1.35</u>	<u>\$ 6.23</u>	<u>\$ 4.84</u>
<b>Diluted weighted average shares outstanding:</b>				
GAAP	299	234	295	234
Non-GAAP	<u>299</u>	<u>234</u>	<u>295</u>	<u>234</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 cost of revenue; non-GAAP gross profit; non-GAAP operating expenses; non-GAAP operating income; non-GAAP interest and other expense, net; non-GAAP income tax expense; 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 these 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. Specifically, we believe these Non-GAAP measures provide useful information to both management and investors as they exclude certain expenses, gains and losses that we believe are not indicative of our core operating results or because they are consistent with the financial models and estimates published by many analysts who follow us and our peers. As discussed further below, these Non-GAAP measures exclude the amortization of acquired intangible assets, stock-based compensation expense, employee termination, asset impairment and other charges, acquisition-related charges, charges related to arbitration award, charges related to cost saving initiatives, convertible debt activity, debt extinguishment costs, other charges, and income tax adjustments, and we believe these measures along with the related reconciliations to the GAAP measures provide additional detail and comparability for assessing our results. These Non-GAAP measures are some of the primary indicators management uses for assessing our performance and planning and forecasting future periods. 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.

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.

Stock-based compensation expense. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, the subjective assumptions involved in those determinations, and the volatility in valuations that can be driven by market conditions outside our control, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand and assess the underlying performance of our business over time and compare it against our peers, a majority of whom also exclude stock-based compensation expense from their non-GAAP results.

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 indicative of the underlying performance of our business.

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, and retention bonuses. We may also experience other accounting impacts in connection with these transactions. These charges and impacts are related to acquisitions, are inconsistent in amount and frequency, and are not indicative of the underlying performance of our business.

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.

Charges related to cost saving initiatives. In connection with the transformation of our business, we have incurred charges related to cost saving initiatives which do not qualify for special accounting treatment as exit or disposal activities. These charges, which are not indicative of the underlying performance 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.

Convertible debt activity, net. We exclude non-cash economic interest expense associated with the convertible senior notes, the gains and losses on the conversion of the convertible senior notes and call option, and unrealized gains and losses related to the change in fair value of the exercise option and call option. These charges and gains and losses do not reflect our cash operating results and are not indicative of the underlying performance of our business.

Debt extinguishment costs. From time-to-time, we replace our existing debt with new financing at more favorable interest rates or utilize available capital to settle debt early, both of which generate interest savings in future periods. We incur debt extinguishment charges consisting of the costs to call the existing debt and/or the write-off of any related unamortized debt issuance costs. These gains and losses related to our debt activity occur infrequently and are not indicative of the underlying performance of our business.

Other charges. From time-to-time, we sell or impair investments or other assets which are not considered necessary to our business operations; 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.