

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited)

	June 30, 2017	July 1, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,354	\$ 8,151
Short-term investments	24	227
Accounts receivable, net	1,948	1,461
Inventories	2,341	2,129
Other current assets	389	616
Total current assets	11,056	12,584
Property, plant and equipment, net	3,033	3,503
Notes receivable and investments in Flash Ventures	1,340	1,171
Goodwill	10,014	9,951
Other intangible assets, net	3,823	5,034
Other non-current assets	594	619
Total assets	\$ 29,860	\$ 32,862

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,144	\$ 1,888
Accounts payable to related parties	206	168
Accrued expenses	1,069	995
Accrued compensation	506	392
Accrued warranty	186	172
Bridge loan	-	2,995
Current portion of long-term debt	233	339
Total current liabilities	4,344	6,949
Long-term debt	12,918	13,660
Other liabilities	1,180	1,108
Total liabilities	18,442	21,717
Total shareholders' equity	11,418	11,145
Total liabilities and shareholders' equity	\$ 29,860	\$ 32,862

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts; unaudited)

	Three Months Ended		Years Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue, net	\$ 4,842	\$ 3,495	\$ 19,093	\$ 12,994
Cost of revenue	3,161	2,674	13,021	9,559
Gross profit	<u>1,681</u>	<u>821</u>	<u>6,072</u>	<u>3,435</u>
Operating expenses:				
Research and development	604	494	2,441	1,627
Selling, general and administrative	345	400	1,445	997
Employee termination, asset impairment and other charges	80	122	232	345
Total operating expenses	<u>1,029</u>	<u>1,016</u>	<u>4,118</u>	<u>2,969</u>
Operating income (loss)	652	(195)	1,954	466
Interest and other expense, net	<u>(237)</u>	<u>(290)</u>	<u>(1,185)</u>	<u>(313)</u>
Income (loss) before taxes	415	(485)	769	153
Income tax expense (benefit)	135	(119)	372	(89)
Net income (loss)	<u>\$ 280</u>	<u>\$ (366)</u>	<u>\$ 397</u>	<u>\$ 242</u>
Income (loss) per common share:				
Basic	<u>\$ 0.96</u>	<u>\$ (1.40)</u>	<u>\$ 1.38</u>	<u>\$ 1.01</u>
Diluted	<u>\$ 0.93</u>	<u>\$ (1.40)</u>	<u>\$ 1.34</u>	<u>\$ 1.00</u>
Weighted average shares outstanding:				
Basic	<u>292</u>	<u>261</u>	<u>288</u>	<u>239</u>
Diluted	<u>301</u>	<u>261</u>	<u>296</u>	<u>242</u>

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	Three Months Ended		Years Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Operating Activities				
Net income (loss)	\$ 280	\$ (366)	\$ 397	\$ 242
Adjustments to reconcile net income (loss) to net cash provided by operations:				
Depreciation and amortization	546	420	2,128	1,154
Stock-based compensation	91	70	394	191
Deferred income taxes	(49)	(132)	12	(149)
Loss on disposal of assets	6	9	18	22
Write-off of issuance costs and amortization of debt discounts	10	36	285	39
Loss (gain) on convertible debt and related instruments	(1)	58	5	58
Non-cash portion of employee termination, asset impairment and other charges	-	5	13	41
Other non-cash operating activities, net	36	11	94	11
Changes in operating assets and liabilities, net	20	244	91	374
Net cash provided by operating activities	<u>939</u>	<u>355</u>	<u>3,437</u>	<u>1,983</u>
Investing Activities				
Purchases of property, plant and equipment, net	(125)	(151)	(557)	(584)
Activity related to Flash Ventures, net	(53)	(90)	(277)	(90)
Acquisitions, net of cash acquired	-	(9,835)	-	(9,835)
Investment activity, net	(1)	532	230	977
Strategic investments and other, net	(11)	(53)	(32)	(76)
Net cash used in investing activities	<u>(190)</u>	<u>(9,597)</u>	<u>(636)</u>	<u>(9,608)</u>
Financing Activities				
Employee stock plans, net	128	57	230	74
Payment upon settlement of acquired warrants	-	(613)	-	(613)
Settlement of convertible debt	-	(2,611)	(492)	(2,611)
Proceeds from acquired call option	-	409	61	409
Repurchases of common stock	-	-	-	(60)
Dividends paid to shareholders	(146)	(117)	(574)	(464)
Settlement of debt hedge	(21)	-	(21)	-
Proceeds from debt, net of issuance costs	-	16,709	7,898	16,709
Repayment of debt	(10)	(2,329)	(11,697)	(2,693)
Net cash provided by (used in) financing activities	<u>(49)</u>	<u>11,505</u>	<u>(4,595)</u>	<u>10,751</u>
Effect of exchange rate changes on cash	2	1	(3)	1
Net increase (decrease) in cash and cash equivalents	702	2,264	(1,797)	3,127
Cash and cash equivalents, beginning of period	5,652	5,887	8,151	5,024
Cash and cash equivalents, end of period	<u>\$ 6,354</u>	<u>\$ 8,151</u>	<u>\$ 6,354</u>	<u>\$ 8,151</u>

WESTERN DIGITAL CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(in millions, except per share amounts; unaudited)

	Three Months Ended		Years Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Summary Reconciliation of Net Income (Loss):				
GAAP net income (loss)	\$ 280	\$ (366)	\$ 397	\$ 242
Amortization of acquired intangible assets	319	187	1,162	258
Stock-based compensation expense	89	68	382	180
Employee termination, asset impairment and other charges	80	122	232	345
Acquisition-related charges	-	238	35	281
Charges related to cost saving initiatives	40	57	154	143
Charges related to arbitration award	-	-	-	32
Convertible debt activity, net	(1)	58	6	58
Debt extinguishment costs	-	18	274	18
Other	47	(21)	67	(29)
Income tax adjustments	27	(92)	11	(127)
Non-GAAP net income	<u>\$ 881</u>	<u>\$ 269</u>	<u>\$ 2,720</u>	<u>\$ 1,401</u>
GAAP cost of revenue	\$ 3,161	\$ 2,674	\$ 13,021	\$ 9,559
Amortization of acquired intangible assets	(279)	(114)	(1,003)	(163)
Stock-based compensation expense	(12)	(8)	(49)	(21)
Acquisition-related charges	-	(122)	(18)	(122)
Charges related to cost saving initiatives	(24)	(27)	(68)	(74)
Other	(2)	-	(5)	5
Non-GAAP cost of revenue	<u>\$ 2,844</u>	<u>\$ 2,403</u>	<u>\$ 11,878</u>	<u>\$ 9,184</u>
GAAP gross profit	\$ 1,681	\$ 821	\$ 6,072	\$ 3,435
Amortization of acquired intangible assets	279	114	1,003	163
Stock-based compensation expense	12	8	49	21
Acquisition-related charges	-	122	18	122
Charges related to cost saving initiatives	24	27	68	74
Other	2	-	5	(5)
Non-GAAP gross profit	<u>\$ 1,998</u>	<u>\$ 1,092</u>	<u>\$ 7,215</u>	<u>\$ 3,810</u>
GAAP operating expenses	\$ 1,029	\$ 1,016	\$ 4,118	\$ 2,969
Amortization of acquired intangible assets	(40)	(73)	(159)	(95)
Stock-based compensation expense	(77)	(60)	(333)	(159)
Employee termination, asset impairment and other charges	(80)	(122)	(232)	(345)
Acquisition-related charges	-	(116)	(17)	(159)
Charges related to arbitration award	-	-	-	(32)
Charges related to cost saving initiatives	(16)	(30)	(86)	(69)
Other	(4)	26	(8)	29
Non-GAAP operating expenses	<u>\$ 812</u>	<u>\$ 641</u>	<u>\$ 3,283</u>	<u>\$ 2,139</u>
GAAP operating income (loss)	\$ 652	\$ (195)	\$ 1,954	\$ 466
Cost of revenue adjustments	317	271	1,143	375
Operating expense adjustments	217	375	835	830
Non-GAAP operating income	<u>\$ 1,186</u>	<u>\$ 451</u>	<u>\$ 3,932</u>	<u>\$ 1,671</u>
GAAP interest and other expense, net	\$ (237)	\$ (290)	\$ (1,185)	\$ (313)
Convertible debt activity, net	(1)	58	6	58
Debt extinguishment costs	-	18	274	18
Other	41	5	54	5
Non-GAAP interest and other expense, net	<u>\$ (197)</u>	<u>\$ (209)</u>	<u>\$ (851)</u>	<u>\$ (232)</u>
GAAP income tax expense (benefit)	\$ 135	\$ (119)	\$ 372	\$ (89)
Income tax adjustments	(27)	92	(11)	127
Non-GAAP income tax expense (benefit)	<u>\$ 108</u>	<u>\$ (27)</u>	<u>\$ 361</u>	<u>\$ 38</u>
Diluted income (loss) per common share:				
GAAP	\$ 0.93	\$ (1.40)	\$ 1.34	\$ 1.00
Non-GAAP	<u>\$ 2.93</u>	<u>\$ 1.02</u>	<u>\$ 9.19</u>	<u>\$ 5.79</u>
Diluted weighted average shares outstanding:				
GAAP	301	261	296	242
Non-GAAP	<u>301</u>	<u>263</u>	<u>296</u>	<u>242</u>

WESTERN DIGITAL CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

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 (benefit); non-GAAP net income and non-GAAP diluted 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 cost saving initiatives, charges related to arbitration award, 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 we believe 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 we believe 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 we believe 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 operating results, and we believe 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 we believe 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 we believe 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.