

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions; unaudited)

	<u>Sep. 29, 2017</u>	<u>June 30, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,886	\$ 6,354
Short-term investments	35	24
Accounts receivable, net	2,101	1,948
Inventories	2,302	2,341
Other current assets	496	389
Total current assets	<u>11,820</u>	<u>11,056</u>
Property, plant and equipment, net	3,048	3,033
Notes receivable and investments in Flash Ventures	1,462	1,340
Goodwill	10,073	10,014
Other intangible assets, net	3,545	3,823
Other non-current assets	557	594
Total assets	<u><u>\$ 30,505</u></u>	<u><u>\$ 29,860</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,066	\$ 2,144
Accounts payable to related parties	226	206
Accrued expenses	1,271	1,069
Accrued compensation	468	506
Accrued warranty	180	186
Current portion of long-term debt	258	233
Total current liabilities	<u>4,469</u>	<u>4,344</u>
Long-term debt	12,873	12,918
Other liabilities	1,104	1,180
Total liabilities	<u>18,446</u>	<u>18,442</u>
Total shareholders' equity	12,059	11,418
Total liabilities and shareholders' equity	<u><u>\$ 30,505</u></u>	<u><u>\$ 29,860</u></u>

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts; unaudited)

	Three Months Ended	
	Sep. 29, 2017	Sep. 30, 2016
Revenue, net	\$ 5,181	\$ 4,714
Cost of revenue	3,268	3,379
Gross profit	<u>1,913</u>	<u>1,335</u>
Operating expenses:		
Research and development	592	639
Selling, general and administrative	364	396
Employee termination, asset impairment and other charges	52	68
Total operating expenses	<u>1,008</u>	<u>1,103</u>
Operating income	905	232
Interest and other expense, net	(195)	(503)
Income (loss) before taxes	710	(271)
Income tax expense	29	95
Net income (loss)	<u>\$ 681</u>	<u>\$ (366)</u>
Income (loss) per common share:		
Basic	<u>\$ 2.31</u>	<u>\$ (1.28)</u>
Diluted	<u>\$ 2.23</u>	<u>\$ (1.28)</u>
Weighted average shares outstanding:		
Basic	<u>295</u>	<u>285</u>
Diluted	<u>306</u>	<u>285</u>

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions; unaudited)

	Three Months Ended	
	Sep. 29, 2017	Sep. 30, 2016
Operating Activities		
Net income (loss)	\$ 681	\$ (366)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	533	508
Stock-based compensation	97	99
Deferred income taxes	36	147
Loss on disposal of assets	1	4
Write-off of issuance costs and amortization of debt discounts	10	247
Loss on convertible debt and related instruments	-	5
Other non-cash operating activities, net	11	1
Changes in operating assets and liabilities, net	(236)	(205)
Net cash provided by operating activities	<u>1,133</u>	<u>440</u>
Investing Activities		
Purchases of property, plant and equipment, net	(155)	(183)
Activity related to Flash Ventures, net	(131)	(27)
Acquisitions, net of cash acquired	(93)	-
Investment activity, net	(22)	9
Strategic investments and other, net	23	(1)
Net cash used in investing activities	<u>(378)</u>	<u>(202)</u>
Financing Activities		
Employee stock plans, net	(41)	26
Proceeds from acquired call option	-	61
Dividends paid to shareholders	(147)	(142)
Proceeds from debt, net of issuance costs	-	3,985
Settlement of debt hedge contracts	26	-
Repayment of debt	(62)	(8,242)
Net cash used in financing activities	<u>(224)</u>	<u>(4,312)</u>
Effect of exchange rate changes on cash	1	-
Net increase (decrease) in cash and cash equivalents	532	(4,074)
Cash and cash equivalents, beginning of period	6,354	8,151
Cash and cash equivalents, end of period	<u>\$ 6,886</u>	<u>\$ 4,077</u>

WESTERN DIGITAL CORPORATION
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in millions, except per share amounts; unaudited)

	Three Months Ended	
	Sep. 29, 2017	Sep. 30, 2016
GAAP cost of revenue	\$ 3,268	\$ 3,379
Amortization of acquired intangible assets	(279)	(202)
Stock-based compensation expense	(13)	(13)
Acquisition-related charges	-	(17)
Charges related to cost saving initiatives	13	(30)
Other	-	(2)
Non-GAAP cost of revenue	<u>\$ 2,989</u>	<u>\$ 3,115</u>
GAAP gross profit	\$ 1,913	\$ 1,335
Amortization of acquired intangible assets	279	202
Stock-based compensation expense	13	13
Acquisition-related charges	-	17
Charges related to cost saving initiatives	(13)	30
Other	-	2
Non-GAAP gross profit	<u>\$ 2,192</u>	<u>\$ 1,599</u>
GAAP operating expenses	\$ 1,008	\$ 1,103
Amortization of acquired intangible assets	(40)	(40)
Stock-based compensation expense	(84)	(86)
Employee termination, asset impairment and other charges	(52)	(68)
Acquisition-related charges	(4)	(10)
Charges related to cost saving initiatives	(9)	(33)
Other	-	(3)
Non-GAAP operating expenses	<u>\$ 819</u>	<u>\$ 863</u>
GAAP operating income	\$ 905	\$ 232
Cost of revenue adjustments	279	264
Operating expense adjustments	189	240
Non-GAAP operating income	<u>\$ 1,373</u>	<u>\$ 736</u>
GAAP interest and other expense, net	\$ (195)	\$ (503)
Convertible debt activity, net	-	5
Debt extinguishment costs	-	267
Other	(5)	4
Non-GAAP interest and other expense, net	<u>\$ (200)</u>	<u>\$ (227)</u>
GAAP income tax expense	\$ 29	\$ 95
Income tax adjustments	55	(34)
Non-GAAP income tax expense	<u>\$ 84</u>	<u>\$ 61</u>

	Three Months Ended	
	Sep. 29, 2017	Sep. 30, 2016
GAAP net income (loss)	\$ 681	\$ (366)
Amortization of acquired intangible assets	319	242
Stock-based compensation expense	97	99
Employee termination, asset impairment and other charges	52	68
Acquisition-related charges	4	27
Charges related to cost saving initiatives	(4)	63
Convertible debt activity, net	-	5
Debt extinguishment costs	-	267
Other	(5)	9
Income tax adjustments	(55)	34
Non-GAAP net income	\$ 1,089	\$ 448
Diluted income (loss) per common share:		
GAAP	\$ 2.23	\$ (1.28)
Non-GAAP	\$ 3.56	\$ 1.54
Diluted weighted average shares outstanding:		
GAAP	306	285
Non-GAAP	306	290

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 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. The company 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, the company believes these Non-GAAP measures provide useful information to both management and investors as they exclude certain expenses, gains and losses that the company believes are not indicative of its core operating results or because they are consistent with the financial models and estimates published by many analysts who follow the company and its 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, convertible debt activity, debt extinguishment costs, other charges, and income tax adjustments, and the company believes these measures along with the related reconciliations to the GAAP measures provide additional detail and comparability for assessing the company's results. These Non-GAAP measures are some of the primary indicators management uses for assessing the company's 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, the company excludes the following items from its Non-GAAP measures:

Amortization of acquired intangible assets. The company incurs expenses from the amortization of acquired intangible assets over their economic lives. Such charges are significantly impacted by the timing and magnitude of the company's 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 the company's control, the company believes excluding stock-based compensation expense enhances the ability of management and investors to understand and assess the underlying performance of its business over time and compare it against the company's 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 the company's operations with anticipated market demand or to achieve cost synergies from the integration of acquisitions, the company may terminate employees and/or restructure its operations. From time-to-time, the company 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 the company believes are not indicative of the underlying performance of its business.

Acquisition-related charges. In connection with the company's business combinations, the company incurs expenses which it would not have otherwise incurred as part of its 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. The company 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 the company believes are not indicative of the underlying performance of its business.

Charges related to cost saving initiatives. In connection with the transformation of the company's business, the company has incurred charges related to cost saving initiatives which do not qualify for special accounting treatment as exit or disposal activities. These charges, which the company believes are not indicative of the underlying performance of its business, primarily relate to costs associated with rationalizing the company's channel partners or vendors, transforming the company's information systems infrastructure, integrating the company's product roadmap, and accelerated depreciation on assets.

Convertible debt activity, net. The company excludes 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 the company's operating results, and the company believes are not indicative of the underlying performance of its business.

Debt extinguishment costs. From time-to-time, the company replaces its 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. The company incurs 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 do not reflect the company's operating results, and the company believes are not indicative of the underlying performance of its business.

Other charges. From time-to-time, the company sells or impairs investments or other assets which are not considered necessary to its 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 the company believes are not a part of the ongoing operation of its 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.