WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited)

	Dec. 30, 2016	July 1, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,940	$ 8,151
Short-term investments	161	227
Accounts receivable, net	2,004	1,461
Inventories	2,085	2,129
Other current assets	416	616
Total current assets	9,606	12,584
Property, plant and equipment, net	3,238	3,503
Notes receivable and investments in Flash Ventures	1,082	1,171
Goodwill	10,005	9,951
Other intangible assets, net	4,469	5,034
Other non-current assets	575	619
Total assets	$ 28,975	$ 32,862
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,012	$ 1,888
Accounts payable to related parties	175	168
Accrued expenses	1,001	995
Accrued compensation	581	392
Accrued warranty	190	172
Bridge loan	-	2,995
Current portion of long-term debt	129	339
Total current liabilities	4,088	6,949
Long-term debt	12,944	13,660
Other liabilities	1,211	1,108
Total liabilities	18,243	21,717
Total shareholders' equity	10,732	11,145
Total liabilities and shareholders' equity	$ 28,975	$ 32,862

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 30, 2016	Jan. 1, 2016	Dec. 30, 2016	Jan. 1, 2016
Revenue, net	$ 4,888	$ 3,317	$ 9,602	$ 6,677
Cost of revenue	3,355	2,411	6,734	4,816
Gross profit	1,533	906	2,868	1,861
Operating expenses:				
Research and development	585	389	1,224	774
Selling, general and administrative	358	239	754	431
Employee termination, asset impairment and other charges	45	27	113	83
Total operating expenses	988	655	2,091	1,288
Operating income	545	251	777	573
Interest and other expense, net	(224)	(7)	(727)	(15)
Income before taxes	321	244	50	558
Income tax expense (benefit)	86	(7)	181	24
Net income (loss)	$ 235	$ 251	$ (131)	$ 534
Income (loss) per common share:				
Basic	$ 0.82	$ 1.08	$ (0.46)	$ 2.31
Diluted	$ 0.80	$ 1.07	$ (0.46)	$ 2.28
Weighted average shares outstanding:				
Basic	286	232	285	231
Diluted	294	234	285	234

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 30, 2016	**Jan. 1 2016**	**Dec. 30, 2016**	**Jan. 1 2016**
Operating Activities				
Net income (loss)	$ 235	$ 251	$ (131)	$ 534
Adjustments to reconcile net income (loss) to net cash provided by operations:				
Depreciation and amortization	514	252	1,022	488
Stock-based compensation	102	37	201	79
Deferred income taxes	(30)	22	117	15
Loss on disposal of assets	6	6	10	6
Write-off of issuance costs and amortization of debt discounts	11	1	258	2
Loss on settlement of convertible debt	-	-	5	-
Non-cash portion of employee termination, asset impairment and other charges	13	-	13	18
Other non-cash operating activities, net	41	-	42	-
Changes in operating assets and liabilities, net	168	29	(37)	1
Net cash provided by operating activities	1,060	598	1,500	1,143
Investing Activities				
Purchases of property, plant and equipment, net	(146)	(149)	(329)	(300)
Activity related to Flash Ventures, net	(43)	-	(70)	-
Investment activity, net	86	(30)	95	(142)
Strategic investments and other, net	(11)	(2)	(12)	(12)
Net cash used in investing activities	(114)	(181)	(316)	(454)
Financing Activities				
Employee stock plans, net	80	12	106	4
Proceeds from acquired call option	-	-	61	-
Repurchases of common stock	-	-	-	(60)
Dividends paid to shareholders	(142)	(116)	(284)	(231)
Proceeds from debt, net of issuance costs	-	-	3,985	-
Repayment of debt	(12)	(31)	(8,254)	(63)
Net cash used in financing activities	(74)	(135)	(4,386)	(350)
Effect of exchange rate changes on cash	(9)	-	(9)	-
Net increase (decrease) in cash and cash equivalents	863	282	(3,211)	339
Cash and cash equivalents, beginning of period	4,077	5,081	8,151	5,024
Cash and cash equivalents, end of period	$ 4,940	$ 5,363	$ 4,940	$ 5,363

WESTERN DIGITAL CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(in millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 30, 2016	**Jan. 1, 2016**	**Dec. 30, 2016**	**Jan. 1, 2016**
Summary Reconciliation of Net Income:				
GAAP net income (loss)	$ 235	$ 251	$ (131)	$ 534
Amortization of acquired intangible assets	277	24	519	49
Stock-based compensation expense	96	35	195	76
Employee termination, asset impairment and other charges	45	27	113	83
Acquisition-related charges	6	27	33	27
Charges related to cost saving initiatives	23	37	86	37
Charges related to arbitration award	-	32	-	32
Convertible debt activity, net	1	-	6	-
Debt extinguishment costs	-	-	267	-
Other	5	(6)	14	(4)
Income tax adjustments	(13)	(24)	21	(19)
Non-GAAP net income	$ 675	$ 403	$ 1,123	$ 815
GAAP cost of revenue	$ 3,355	$ 2,411	$ 6,734	$ 4,816
Amortization of acquired intangible assets	(238)	(16)	(440)	(33)
Stock-based compensation expense	(11)	(4)	(24)	(9)
Acquisition-related charges	(1)	-	(18)	-
Charges related to cost saving initiatives	(8)	(22)	(38)	(22)
Other	(1)	3	(3)	3
Non-GAAP cost of revenue	$ 3,096	$ 2,372	$ 6,211	$ 4,755
GAAP gross profit	$ 1,533	$ 906	$ 2,868	$ 1,861
Amortization of acquired intangible assets	238	16	440	33
Stock-based compensation expense	11	4	24	9
Acquisition-related charges	1	-	18	-
Charges related to cost saving initiatives	8	22	38	22
Other	1	(3)	3	(3)
Non-GAAP gross profit	$ 1,792	$ 945	$ 3,391	$ 1,922
GAAP operating expense	$ 988	$ 655	$ 2,091	$ 1,288
Amortization of acquired intangible assets	(39)	(8)	(79)	(16)
Stock-based compensation expense	(85)	(31)	(171)	(67)
Employee termination, asset impairment and other charges	(45)	(27)	(113)	(83)
Acquisition-related charges	(5)	(27)	(15)	(27)
Charges related to arbitration award	-	(32)	-	(32)
Charges related to cost saving initiatives	(15)	(15)	(48)	(15)
Other	(2)	3	(5)	1
Non-GAAP operating expense	$ 797	$ 518	$ 1,660	$ 1,049
GAAP operating income	$ 545	$ 251	$ 777	$ 573
Cost of revenue adjustments	259	39	523	61
Operating expense adjustments	191	137	431	239
Non-GAAP operating income	$ 995	$ 427	$ 1,731	$ 873
GAAP interest and other expense, net	$ (224)	$ (7)	$ (727)	$ (15)
Convertible debt activity, net	1	-	6	-
Debt extinguishment costs	-	-	267	-
Other	2	-	6	-
Non-GAAP interest and other expense, net	$ (221)	$ (7)	$ (448)	$ (15)
GAAP income tax expense (benefit)	$ 86	$ (7)	$ 181	$ 24
Income tax adjustments	13	24	(21)	19
Non-GAAP income tax expense	$ 99	$ 17	$ 160	$ 43

	Three Months Ended		Six Months Ended	
	Dec. 30, 2016	Jan. 1, 2016	Dec. 30, 2016	Jan. 1, 2016
Summary Reconciliation of Net Income (cont'd):				
GAAP net income (loss)	$ 235	$ 251	$ (131)	$ 534
Cost of revenue adjustments	259	39	523	61
Operating expense adjustments	191	137	431	239
Interest and other expense, net adjustments	3	-	279	-
Income tax adjustments	(13)	(24)	21	(19)
Non-GAAP net income	$ 675	$ 403	$ 1,123	$ 815
Diluted net income (loss) per common share:				
GAAP	$ 0.80	$ 1.07	$ (0.46)	$ 2.28
Non-GAAP	$ 2.30	$ 1.72	$ 3.85	$ 3.48
Diluted weighted average shares outstanding:				
GAAP	294	234	285	234
Non-GAAP	294	234	292	234

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 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.