WESTERN DIGITAL CORP

FORM 8-K
(Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 25, 2018

Western Digital Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-08703**	**33-0956711**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

5601 Great Oaks Parkway	
San Jose, California	**95119**
(Address of Principal Executive Offices)	**(Zip Code)**

(408) 717-6000
(Registrant's Telephone Number, Including Area Code)

Not applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On January 25, 2018, Western Digital Corporation (the "Company") announced financial results for the second fiscal quarter ended December 29, 2017. A copy of the press release making this announcement is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

In accordance with General Instruction B.2 of Form 8-K, the information in this Item 2.02, including Exhibit 99.1, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 8.01 Other Events.

On December 22, 2017, the President of the United States of America signed the Tax Cuts and Jobs Act (the "2017 Act"), which includes a broad range of tax reform proposals affecting businesses, including a reduction in the U.S. federal corporate tax rate from 35% to 21%, a one-time mandatory deemed repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred, and a new minimum tax on certain foreign earnings.

For the three and six months ended December 29, 2017, the Company has not finalized the accounting for the tax effects of the enactment of the 2017 Act. However, consistent with applicable Securities and Exchange Commission guidance, the Company has made a reasonable estimate of the effects on the Company's existing deferred tax balances and the one-time mandatory deemed repatriation tax required by the 2017 Act and has recognized a provisional income tax expense of $1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of $88 million related to the re-measurement of deferred tax assets and liabilities for the three and six months ended December 29, 2017. For other elements of tax expense noted below, or where the Company has not made an election, the Company has not been able to make a reasonable estimate and continues to account for such items based on the provisions of the tax laws that were in effect immediately prior to the 2017 Act. As the Company finalizes the accounting for the tax effects of the enactment of the 2017 Act during a one-year measurement period permitted by applicable Securities and Exchange Commission guidance, the Company expects to reflect adjustments to the recorded provisional amounts and record additional tax effects of the 2017 Act.

The 2017 Act is expected to have an unfavorable impact on the Company's effective tax rate for fiscal year 2018 due to the mandatory deemed repatriation tax offset in part by the re-measurement of deferred taxes and the reduction in the corporate tax rate. In future years, certain additional provisions of the 2017 Act, such as a minimum tax on foreign earnings, will also apply to the Company and, as a result, the Company generally expects its effective tax rate to increase from the rate expected for fiscal year 2018 (excluding the mandatory deemed repatriation tax and the re-measurement of deferred taxes). The estimate of the effective tax rate increase is subject to the Company's assertion as to whether foreign undistributed earnings are indefinitely reinvested and to other calculations and elections during the measurement period. The Company's total tax expense in future fiscal years will also vary as a result of discrete items such as excess tax benefits or tax deficiencies.

Additional information regarding the significant provisions of the 2017 Act that are expected to impact the Company is provided below.

Re-Measurement of Deferred Taxes .

The provisional income tax benefit of $88 million recorded for the three and six months ended December 29, 2017 related to the re-measurement of the Company's deferred tax balance is based on the rates at which the deferred tax assets and liabilities are expected to reverse in the current and future fiscal years, which are generally 29% and 22%, respectively. However, the Company is still analyzing certain aspects of the 2017 Act and refining the calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company is also analyzing the impact of the 2017 Act to the existing valuation allowance assessments from both a federal and state tax perspective, which could potentially affect the realizability of the existing deferred tax assets. In calculating the provisional amount, the Company utilized an estimate of the expected reversals of certain tax assets and liabilities, which will be revised in future quarters during the one-year measurement period as additional information becomes available.

Mandatory Deemed Repatriation Tax .

In connection with the transition from a global to a territorial U.S. tax system, companies are required to pay a mandatory deemed repatriation tax. The tax is to be computed using the Company's total foreign post-1986 earnings and profits that were previously deferred from U.S. income taxes. This tax is based on the amount of foreign earnings held in cash and other specified assets which are taxed at 15.5% and 8%, respectively. The Company recorded a provisional amount for the mandatory deemed repatriation tax liability of $1.66 billion for foreign subsidiaries and $132 million of this amount is classified as a current tax liability. The calculation of the mandatory deemed repatriation tax liability is provisional and based upon preliminary estimates of post-1986 earnings and profits. In addition, the mandatory deemed repatriation tax is based on a provisional amount of foreign earnings held in cash and other specified assets, which the Company expects will require additional clarifying guidance from U.S. Treasury. As such, the provisional amount may change during the one-year measurement period when the Company finalizes the calculation of post-1986 foreign earnings and profits and the amount of foreign earnings held in cash or other specified assets.

The 2017 Act allows for the mandatory deemed repatriation tax of $1.66 billion to be payable over an 8-year period without interest. The payments are due with 8% of the tax to be paid in each of the first five years, 15% in the 6th year, 20% in the 7th year, and 25% in the 8th year.

The following is a summary of the Company's estimated mandatory deemed repatriation tax obligations, which are payable in the following fiscal years ending (in millions):

June 28, 2019	$ 132
July 3, 2020	133
July 2, 2021	132
July 1, 2022	133
June 30, 2023	132
June 28, 2024	249
June 27, 2025	332
July 3, 2026	414
Total	$ 1,657

A total of $4.90 billion and $4.99 billion of our cash and cash equivalents was held outside of the U.S. as of December 29, 2017 and June 30, 2017, respectively. Although the mandatory deemed repatriation tax has removed U.S. federal taxes on distributions to the U.S., the Company continues to evaluate the expected manner of recovery to determine whether or not to assert indefinite reinvestment on a part or all the foreign undistributed earnings. This requires the Company to re-evaluate the existing short and long-term capital allocation policies in light of the 2017 Act and calculate the tax cost that is incremental to the deemed repatriation tax (e.g. foreign withholding, state income taxes, and additional U.S. tax on currency transaction gains or losses) of repatriating cash to the U.S. While the provisional tax expense for the three and six months ended December 29, 2017 is based upon an assumption that foreign undistributed earnings are indefinitely reinvested, the Company's plan may change upon the completion of long-term capital allocation plans in light of the 2017 Act and completion of the calculation of the incremental tax effects on the repatriation of foreign undistributed earnings. In the event the Company determines not to continue to assert the permanent reinvestment of part or all of foreign undistributed earnings, such a determination could result in the accrual and payment of additional foreign, state and local taxes.

Deferred Taxes on Foreign Earnings .

As a result of the shift to a territorial system for U.S. taxation, the new minimum tax on certain foreign earnings (“global intangible low-tax income”) provision of the 2017 Act imposes a tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries. This provision is effective for tax years beginning on or after January 1, 2018, which for the Company would be the fiscal year beginning on June 30, 2018 (fiscal year 2019). The Company has not progressed sufficiently in the analysis of this provision to make an election to account for the effects of the minimum tax either as a component of future income tax expense in the period the tax arises or as a component of deferred taxes on the related investments. Accordingly, no deferred tax assets and liabilities have been established for timing differences between foreign U.S. GAAP income and foreign earnings and profits which would be expected to reverse under the new minimum tax in future years. Additionally, the Company has not yet completed the calculation of post-1986 foreign earnings and profits for the mandatory repatriation tax, which would be the starting point for the measurement of deferred tax assets and liabilities in order to record any provisional amounts.

Reduction in Corporate Rate .

Under the 2017 Act, the reduction of the U.S. federal corporate tax rate from 35% to 21% is effective January 1, 2018, resulting in the use of an estimated annual effective rate of approximately 28% for the Company’s U.S. federal corporate tax rate for fiscal year 2018. The reduction in the U.S. federal corporate tax rate from 35% to the blended tax rate of 28% for fiscal year 2018 is estimated to have reduced the Company’s income tax expense by $7 million for the three and six months ended December 29, 2017. For fiscal year 2019 and beyond, the Company will utilize the enacted U.S. federal corporate tax rate of 21%.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Press Release issued by Western Digital Corporation on January 25, 2018 announcing financial results for the second fiscal quarter ended December 29, 2017.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Western Digital Corporation
(Registrant)

Date: January 25, 2018

By: /s/ Michael C. Ray
Michael C. Ray
Executive Vice President, Chief Legal Officer and Secretary

Exhibit 99.1

Western Digital®

FOR IMMEDIATE RELEASE :

WESTERN DIGITAL ANNOUNCES FINANCIAL RESULTS FOR SECOND FISCAL QUARTER 2018

Achieves Record Quarterly Revenue of $5.3 Billion

SAN JOSE, Calif. — Jan. 25, 2018 — Western Digital Corp. (NASDAQ: WDC) today reported record revenue of $5.3 billion for its second fiscal quarter ended Dec. 29, 2017. Operating income was $955 million with a net loss of $823 million, or ($2.78) per share. The GAAP net loss for the period includes a provisional net tax charge of $1.6 billion primarily due to the repatriation tax as a result of the Tax Cuts and Jobs Act. Excluding this charge and after other non-GAAP adjustments, the company achieved record non-GAAP operating income of $1.4 billion and non-GAAP net income of $1.2 billion, or $3.95 per share.

In the year-ago quarter, the company reported revenue of $4.9 billion, operating income of $545 million and net income of $235 million, or $0.80 per share. Non-GAAP operating income in the year-ago quarter was $995 million and non-GAAP net income was $675 million, or $2.30 per share.

The company generated approximately $1.2 billion in cash from operations during the second fiscal quarter of 2018, ending with $6.4 billion of total cash, cash equivalents and available-for-sale securities. On Nov. 1, 2017, the company declared a cash dividend of $0.50 per share of its common stock, which was paid to shareholders on Jan. 16, 2018.

"We continued our strong financial performance in the December quarter, with nine percent year-over-year revenue growth, driven by each of our major end-market categories and solid execution by our team," said Steve Milligan, chief executive officer. "We once again generated strong operating cash flow, reflecting continued healthy demand in our end markets, most notably for our capacity enterprise hard drives and flash-based products.

"I am very pleased with our technology and product development execution. The deployment of our 64-layer 3D flash technology continued across our product portfolio and we will be ramping our 96-layer technology later this calendar year. We continue to lead the industry with our high-capacity helium HDD platform in 10, 12 and 14 terabyte capacities and we remain on plan to sample our MAMR-based capacity enterprise drives in the second half of calendar 2018. I am also pleased that we resolved our negotiations with our JV partner Toshiba in December and ensured our long-term access to flash."

The investment community conference call to discuss these results, the company's guidance for the third fiscal quarter 2018 and an accompanying presentation will be webcast live over the Internet today at 2:30 p.m. Pacific/5:30 p.m. Eastern. The live and archived conference call/webcast can be accessed online at investor.wdc.com . Supplemental financial information, including the company's guidance for the third fiscal quarter and the earnings presentation will also be posted on the same website. The telephone replay number in the U.S. is 1(855) 859-2056 or +1(404) 537-3406 for international callers. The required passcode is 9563377.

About Western Digital ®

Western Digital creates environments for data to thrive. The company is driving the innovation needed to help customers capture, preserve, access and transform an ever-increasing diversity of data. Everywhere data lives, from advanced data centers to mobile sensors to personal devices, our industry-leading solutions deliver the possibilities of data. Western Digital data-centric solutions are marketed under the G-Technology™, HGST, SanDisk ® , Tegile™, Upthere™ and WD ® brands. Financial and investor information is available on the company's Investor Relations website at investor.wdc.com .

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning the company's preliminary financial results for its second fiscal quarter ended Dec. 29, 2017; technology and product development; market positioning; product portfolio; growth strategy; market demand for our products; and our long-term access to flash. These forward-looking statements are based on management's current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The preliminary financial results for the company's second fiscal quarter ended Dec. 29, 2017 included in this press release represent the most current information available to management. The company's actual results when disclosed in its Form 10-Q may differ from these preliminary results as a result of the completion of the company's financial closing procedures; final adjustments; completion of the review by the company's independent registered accounting firm and other developments that may arise between now and the disclosure of the final results. Other risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements include: volatility in global economic conditions; uncertainties with respect to the company's business ventures with Toshiba; business conditions and growth in the storage ecosystem; impact of competitive products and pricing; market acceptance and cost of commodity materials and specialized product components; actions by competitors; unexpected advances in competing technologies; our development and introduction of products based on new technologies and expansion into new data storage markets; risks associated with acquisitions, mergers and joint ventures; difficulties or delays in manufacturing; impacts of new tax legislation; and other risks and uncertainties listed in the company's filings with the Securities and Exchange Commission (the "SEC"), including the company's Form 10-Q filed with the SEC on Nov. 7, 2017, to which your attention is directed. You should not place undue reliance on these forward-looking statements, which speak only as of the date hereof, and the company undertakes no obligation to update these forward-looking statements to reflect new information or events.

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WESTERN DIGITAL CORPORATION

PRELIMINARY CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited; on a US GAAP basis)

	Dec. 29, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,272	$ 6,354
Short-term investments	23	24
Accounts receivable, net	2,052	1,948
Inventories	2,281	2,341
Other current assets	485	389
Total current assets	11,113	11,056
Property, plant and equipment, net	3,054	3,033
Notes receivable and investments in Flash Ventures	1,845	1,340
Goodwill	10,076	10,014
Other intangible assets, net	3,230	3,823
Other non-current assets	522	594
Total assets	$29,840	$29,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,921	$ 2,144
Accounts payable to related parties	250	206
Accrued expenses	1,191	1,069
Accrued compensation	523	506
Accrued warranty	194	186
Current portion of long-term debt	274	233
Total current liabilities	4,353	4,344
Long-term debt	11,777	12,918
Other liabilities	2,438	1,180
Total liabilities	18,568	18,442
Total shareholders' equity	11,272	11,418
Total liabilities and shareholders' equity	$29,840	$29,860

WESTERN DIGITAL CORPORATION

PRELIMINARY CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts; unaudited; on a US GAAP basis)

	Three Months Ended		Six Months Ended	
	Dec. 29, 2017	Dec. 30, 2016	Dec. 29, 2017	Dec. 30, 2016
Revenue, net	$ 5,336	$ 4,888	$10,517	$9,602
Cost of revenue	3,323	3,355	6,591	6,734
Gross profit	2,013	1,533	3,926	2,868
Operating expenses:				
Research and development	629	585	1,221	1,224
Selling, general and administrative	381	358	745	754
Employee termination, asset impairment and other charges	48	45	100	113
Total operating expenses	1,058	988	2,066	2,091
Operating income	955	545	1,860	777
Interest and other expense, net	(181)	(224)	(376)	(727)
Income before taxes	774	321	1,484	50
Income tax expense	1,597	86	1,626	181
Net income (loss)	$ (823)	$ 235	$ (142)	$ (131)
Income (loss) per common share:				
Basic	$ (2.78)	$ 0.82	$ (0.48)	$ (0.46)
Diluted	$ (2.78)	$ 0.80	$ (0.48)	$ (0.46)
Weighted average shares outstanding:				
Basic	296	286	295	285
Diluted	296	294	295	285

WESTERN DIGITAL CORPORATION

PRELIMINARY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited; on a US GAAP basis)

	Three Months Ended		Six Months Ended	
	Dec. 29, 2017	Dec. 30, 2016	Dec. 29, 2017	Dec. 30, 2016
Operating Activities				
Net income (loss)	$ (823)	$ 235	$ (142)	$ (131)
Adjustments to reconcile net income (loss) to net cash provided by operations:				
Depreciation and amortization	535	514	1,068	1,022
Stock-based compensation	99	102	196	201
Deferred income taxes	129	(30)	165	117
Loss on disposal of assets	11	6	12	10
Write-off of issuance costs and amortization of debt discounts	13	11	23	258
Other non-cash operating activities, net	5	54	16	60
Changes in operating assets and liabilities, net	1,213	168	977	(37)
Net cash provided by operating activities	1,182	1,060	2,315	1,500
Investing Activities				
Purchases of property, plant and equipment, net	(251)	(146)	(406)	(329)
Activity related to Flash Ventures, net	(378)	(43)	(509)	(70)
Acquisitions, net of cash acquired	(6)	—	(99)	—
Other	6	75	7	83
Net cash used in investing activities	(629)	(114)	(1,007)	(316)
Financing Activities				
Employee stock plans, net	73	80	32	106
Proceeds from acquired call option	—	—	—	61
Dividends paid to shareholders	(148)	(142)	(295)	(284)
Settlement of debt hedge contracts	2	—	28	—
Proceeds from debt, net of issuance costs	2,958	—	2,958	3,985
Repayment of debt	(4,052)	(12)	(4,114)	(8,254)
Net cash used in financing activities	(1,167)	(74)	(1,391)	(4,386)
Effect of exchange rate changes on cash	—	(9)	1	(9)
Net increase (decrease) in cash and cash equivalents	(614)	863	(82)	(3,211)
Cash and cash equivalents, beginning of period	6,886	4,077	6,354	8,151
Cash and cash equivalents, end of period	$ 6,272	$ 4,940	$ 6,272	$ 4,940

WESTERN DIGITAL CORPORATION

PRELIMINARY RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(in millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 29, 2017	Dec. 30, 2016	Dec. 29, 2017	Dec. 30, 2016
GAAP cost of revenue	$ 3,323	$ 3,355	$ 6,591	$6,734
Amortization of acquired intangible assets	(274)	(238)	(553)	(440)
Stock-based compensation expense	(13)	(11)	(26)	(24)
Acquisition-related charges	—	(1)	—	(18)
Charges related to cost saving initiatives	(6)	(8)	7	(38)
Other	—	(1)	—	(3)
Non-GAAP cost of revenue	$ 3,030	$ 3,096	$ 6,019	$6,211
GAAP gross profit	$ 2,013	$ 1,533	$ 3,926	$2,868
Amortization of acquired intangible assets	274	238	553	440
Stock-based compensation expense	13	11	26	24
Acquisition-related charges	—	1	—	18
Charges related to cost saving initiatives	6	8	(7)	38
Other	—	1	—	3
Non-GAAP gross profit	$ 2,306	$ 1,792	$ 4,498	$3,391
GAAP operating expenses	$ 1,058	$ 988	$ 2,066	$2,091
Amortization of acquired intangible assets	(41)	(39)	(81)	(79)
Stock-based compensation expense	(86)	(85)	(170)	(171)
Employee termination, asset impairment and other charges	(48)	(45)	(100)	(113)
Acquisition-related charges	(6)	(5)	(10)	(15)
Charges related to cost saving initiatives	(12)	(15)	(21)	(48)
Other	—	(2)	—	(5)
Non-GAAP operating expenses	$ 865	$ 797	$ 1,684	$1,660
GAAP operating income	$ 955	$ 545	$ 1,860	$ 777
Cost of revenue adjustments	293	259	572	523
Operating expense adjustments	193	191	382	431
Non-GAAP operating income	$ 1,441	$ 995	$ 2,814	$1,731
GAAP interest and other expense, net	$ (181)	$ (224)	$ (376)	$ (727)
Convertible debt activity, net	—	1	—	6
Debt extinguishment costs	2	—	2	267
Other	(1)	2	(6)	6
Non-GAAP interest and other expense, net	$ (180)	$ (221)	$ (380)	$ (448)
GAAP income tax expense	$ 1,597	$ 86	$ 1,626	$ 181
Income tax adjustments	(1,544)	13	(1,489)	(21)
Non-GAAP income tax expense	$ 53	$ 99	$ 137	$ 160

	Three Months Ended		Six Months Ended	
	Dec. 29, 2017	Dec. 30, 2016	Dec. 29, 2017	Dec. 30, 2016
GAAP net income (loss)	$ (823)	$ 235	$ (142)	$ (131)
Amortization of acquired intangible assets	315	277	634	519
Stock-based compensation expense	99	96	196	195
Employee termination, asset impairment and other charges	48	45	100	113
Acquisition-related charges	6	6	10	33
Charges related to cost saving initiatives	18	23	14	86
Convertible debt activity, net	—	1	—	6
Debt extinguishment costs	2	—	2	267
Other	(1)	5	(6)	14
Income tax adjustments	1,544	(13)	1,489	21
Non-GAAP net income	$ 1,208	$ 675	$2,297	$1,123
Diluted income (loss) per common share:				
GAAP	$ (2.78)	$ 0.80	$ (0.48)	$ (0.46)
Non-GAAP	$ 3.95	$ 2.30	$ 7.51	$ 3.85
Diluted weighted average shares outstanding:				
GAAP	296	294	295	285
Non-GAAP	306	294	306	292

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:

<u>Amortization of acquired intangible assets</u> . 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.

<u>Stock-based compensation expense.</u> 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.

<u>Employee termination, asset impairment and other charges.</u> 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; is 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 incurs 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 include 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. Additionally, as a result of the Tax Cuts and Jobs Act, the three and six months ended December 29, 2017 income tax adjustments include a provisional income tax expense of $1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of $88 million related to the re-measurement of deferred tax assets and liabilities.