

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited)

	<u>Apr. 1, 2016</u>	<u>July 3, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,887	\$ 5,024
Short-term investments	146	262
Accounts receivable, net	1,254	1,532
Inventories	1,227	1,368
Other current assets	226	331
Total current assets	<u>8,740</u>	<u>8,517</u>
Property, plant and equipment, net	2,687	2,965
Goodwill	2,766	2,766
Other intangible assets, net	268	332
Other non-current assets	486	601
Total assets	<u>\$ 14,947</u>	<u>\$ 15,181</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,571	\$ 1,881
Accrued expenses	579	470
Accrued compensation	282	330
Accrued warranty	146	150
Revolving credit facility	-	255
Current portion of long-term debt	203	156
Total current liabilities	<u>2,781</u>	<u>3,242</u>
Long-term debt	2,000	2,156
Other liabilities	557	564
Total liabilities	<u>5,338</u>	<u>5,962</u>
Total shareholders' equity	<u>9,609</u>	<u>9,219</u>
Total liabilities and shareholders' equity	<u>\$ 14,947</u>	<u>\$ 15,181</u>

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	Apr. 1, 2016	Apr. 3, 2015	Apr. 1, 2016	Apr. 3, 2015
Revenue, net	\$ 2,822	\$ 3,550	\$ 9,499	\$ 11,381
Cost of revenue	2,069	2,518	6,885	8,090
Gross profit	<u>753</u>	<u>1,032</u>	<u>2,614</u>	<u>3,291</u>
Operating expenses:				
Research and development	359	402	1,133	1,265
Selling, general and administrative	166	199	565	583
Charges related to arbitration award	-	-	32	15
Employee termination, asset impairment and other charges	140	10	223	72
Total operating expenses	<u>665</u>	<u>611</u>	<u>1,953</u>	<u>1,935</u>
Operating income	88	421	661	1,356
Net interest and other	<u>(8)</u>	<u>(9)</u>	<u>(23)</u>	<u>(26)</u>
Income before income taxes	80	412	638	1,330
Income tax expense	6	28	30	85
Net income	<u>\$ 74</u>	<u>\$ 384</u>	<u>\$ 608</u>	<u>\$ 1,245</u>
Income per common share:				
Basic	<u>\$ 0.32</u>	<u>\$ 1.66</u>	<u>\$ 2.62</u>	<u>\$ 5.34</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 1.63</u>	<u>\$ 2.60</u>	<u>\$ 5.23</u>
Weighted average shares outstanding:				
Basic	<u>233</u>	<u>231</u>	<u>232</u>	<u>233</u>
Diluted	<u>234</u>	<u>236</u>	<u>234</u>	<u>238</u>

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Apr. 1, 2016</u>	<u>Apr. 3, 2015</u>	<u>Apr. 1, 2016</u>	<u>Apr. 3, 2015</u>
Operating Activities				
Net income	\$ 74	\$ 384	\$ 608	\$ 1,245
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	246	285	734	864
Stock-based compensation	42	37	121	117
Deferred income taxes	(32)	(22)	(17)	9
Gain from insurance recovery	-	-	-	(37)
Loss on disposal of assets	7	2	13	14
Non-cash portion of employee termination, asset impairment and other charges	18	(7)	36	12
Changes in operating assets and liabilities, net	130	5	133	(470)
Net cash provided by operating activities	<u>485</u>	<u>684</u>	<u>1,628</u>	<u>1,754</u>
Investing Activities				
Purchases of property, plant and equipment	(133)	(150)	(433)	(456)
Acquisitions, net of cash acquired	-	(241)	-	(247)
Purchases of investments	(54)	(92)	(462)	(687)
Proceeds from sales and maturities of investments	641	35	907	665
Proceeds from sale of property, plant and equipment	-	-	-	7
Other investing activities, net	(11)	(10)	(23)	6
Net cash provided by (used in) investing activities	<u>443</u>	<u>(458)</u>	<u>(11)</u>	<u>(712)</u>
Financing Activities				
Employee stock plans, net	14	48	17	112
Repurchases of common stock	-	(240)	(60)	(772)
Dividends paid to shareholders	(116)	(93)	(347)	(280)
Repayment of debt	(302)	(31)	(364)	(94)
Net cash used in financing activities	<u>(404)</u>	<u>(316)</u>	<u>(754)</u>	<u>(1,034)</u>
Net increase (decrease) in cash and cash equivalents	524	(90)	863	8
Cash and cash equivalents, beginning of period	5,363	4,902	5,024	4,804
Cash and cash equivalents, end of period	<u>\$ 5,887</u>	<u>\$ 4,812</u>	<u>\$ 5,887</u>	<u>\$ 4,812</u>

WESTERN DIGITAL CORPORATION
GAAP TO NON-GAAP RECONCILIATION

(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	Apr. 1, 2016	Apr. 3, 2015	Apr. 1, 2016	Apr. 3, 2015
GAAP net income	\$ 74	\$ 384	\$ 608	\$ 1,245
Non-GAAP adjustments:				
Amortization of acquired intangible assets	22	44	71	135
Employee termination, asset impairment and other charges	140	10	223	72
Charges related to cost saving initiatives	49	-	86	-
Charges related to arbitration award	-	-	32	15
Acquisition-related charges	16	3	43	3
Insurance recoveries	-	-	-	(37)
Other charges	2	-	8	51
Income tax adjustments	(20)	-	(48)	-
Non-GAAP net income	<u>\$ 283</u>	<u>\$ 441</u>	<u>\$ 1,023</u>	<u>\$ 1,484</u>
Diluted net income per common share:				
GAAP	<u>\$ 0.32</u>	<u>\$ 1.63</u>	<u>\$ 2.60</u>	<u>\$ 5.23</u>
Non-GAAP	<u>\$ 1.21</u>	<u>\$ 1.87</u>	<u>\$ 4.37</u>	<u>\$ 6.24</u>
Weighted average shares outstanding:				
Diluted	<u>234</u>	<u>236</u>	<u>234</u>	<u>238</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 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 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.

These Non-GAAP measures exclude amortization of acquired intangible assets; employee termination, asset impairment and other charges; charges related to cost saving initiatives; charges related to arbitration award; acquisition-related charges; insurance recoveries; other charges; and income tax adjustments. We exclude these items for purposes of calculating these Non-GAAP measures to facilitate a more meaningful evaluation of our current operating performance and comparisons to our operating performance in prior periods.

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.

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 a part of the ongoing operation of our business.

Charges related to cost saving initiatives. In connection with the transformation of our business, starting in the 2nd quarter of fiscal 2016, we incur charges related to cost saving initiatives which do not qualify for special accounting treatment as exit or disposal activities. These charges, which are not part of the ongoing operation 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.

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.

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, retention bonuses, and changes to the fair value of contingent consideration. We may also experience other one-time accounting impacts in connection with these transactions. These charges and impacts are related to acquisitions, are inconsistent in amount and frequency, and have no direct correlation to the operation of our business.

Insurance recoveries. From time-to-time, we receive insurance recoveries related to losses or other events which occurred in a prior period. Such recoveries are inconsistent in amount and frequency.

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.