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:

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; 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.