

## Reconciliation of GAAP to Non-GAAP Financial Measures

All non-GAAP measures in this schedule include stock-based compensation. This schedule provides a reconciliation of GAAP to non-GAAP measures, both of which include stock-based compensation as discussed during the Company's conference call held on October 26, 2016.

In millions, except gross margin and per share amounts	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17
<b>Reconciliation of Cash Flows from Operations to Free Cash Flow</b>									
Cash Flows from Operations	\$827	\$243	\$684	\$488	\$545	\$598	\$485	\$355	\$440
Purchases of Property, Plant and Equipment, net	(160)	(146)	(150)	(156)	(151)	(149)	(133)	(151)	(183)
Note Receivable with Flash Ventures, net	-	-	-	-	-	-	-	(90)	(27)
Free Cash Flow	\$667	\$97	\$534	\$332	\$394	\$449	\$352	\$114	\$230
<b>Reconciliation of Gross Margin to Non-GAAP Gross Margin &amp; Gross Profit to Non-GAAP Gross Profit</b>									
Gross Profit	\$1,149	\$1,110	\$1,032	\$930	\$955	\$906	\$753	\$821	\$1,335
Acquisition-related charges	-	-	-	-	-	-	-	122	17
Charges related to cost saving initiatives	-	-	-	-	-	22	25	27	30
Other charges	-	39	-	1	-	-	-	-	-
Amortization of acquired intangible assets	39	38	37	20	17	16	16	114	202
Non-GAAP Gross Profit	\$1,188	\$1,187	\$1,069	\$951	\$972	\$944	\$794	\$1,084	\$1,584
Revenue	\$3,943	\$3,888	\$3,550	\$3,191	\$3,360	\$3,317	\$2,822	\$3,495	\$4,714
Gross Margin	29.1%	28.5%	29.1%	29.1%	28.4%	27.3%	26.7%	23.5%	28.3%
Non-GAAP Gross Margin	30.1%	30.5%	30.1%	29.8%	28.9%	28.5%	28.1%	31.0%	33.6%
<b>Reconciliation of Operating Expenses to Non-GAAP Operating Expenses</b>									
Total Operating Expenses	\$680	\$644	\$611	\$675	\$633	\$655	\$665	\$1,016	\$1,103
Amortization of acquired intangible assets	(7)	(7)	(7)	(8)	(8)	(8)	(6)	(73)	(40)
Employee termination, asset impairment and other charges	(9)	(53)	(10)	(104)	(56)	(27)	(140)	(122)	(68)
Charges related to cost saving initiatives	-	-	-	-	-	(15)	(24)	(30)	(33)
Charges related to arbitration award	(14)	(1)	-	-	-	(32)	-	-	-
Acquisition-related charges	-	-	(3)	-	-	(27)	(16)	(116)	(10)
Charges and insurance recoveries related to flooding, net	-	37	-	-	-	-	-	-	-
Other charges	(12)	-	-	(3)	(2)	(4)	(2)	26	-
Non-GAAP Operating Expenses	\$638	\$620	\$591	\$560	\$567	\$542	\$477	\$701	\$952
<b>Reconciliation of Interest and other expense, net to Non-GAAP Interest and other expense, net</b>									
Interest and Other Expense, net	\$9	\$8	\$9	\$8	\$8	\$7	\$8	\$290	\$503
Convertible debt activity, net	-	-	-	-	-	-	-	(58)	(5)
Debt extinguishment costs	-	-	-	-	-	-	-	(18)	(267)
Other charges	-	-	-	-	-	-	-	(5)	(4)
Non-GAAP Interest and other expense, net	\$9	\$8	\$9	\$8	\$8	\$7	\$8	\$209	\$227
<b>Reconciliation of Net Income (Loss) to Non-GAAP Net Income</b>									
Net Income (Loss)	\$423	\$438	\$384	\$220	\$283	\$251	\$74	\$(366)	\$(366)
Amortization of acquired intangible assets	46	45	44	28	25	24	22	187	242
Employee termination, asset impairment and other charges	9	53	10	104	56	27	140	122	68
Convertible Debt	-	-	-	-	-	-	-	58	5
Charges related to cost saving initiatives	-	-	-	-	-	37	49	57	63
Charges related to arbitration award	14	1	-	-	-	32	-	-	-
Acquisition-related charges	-	-	3	-	-	27	16	238	27
Charges and insurance recoveries related to flooding, net	-	(37)	-	-	-	-	-	-	-
Debt extinguishment costs	-	-	-	-	-	-	-	18	267
Other charges	12	39	-	4	2	4	2	(21)	4
Income tax adjustments	-	-	-	-	-	(28)	(20)	(95)	31
Non-GAAP Net Income	\$504	\$539	\$441	\$356	\$366	\$374	\$283	\$198	\$341
EPS	\$1.76	\$1.84	\$1.63	\$0.94	\$1.21	\$1.07	\$0.32	\$(1.40)	\$(1.28)
Non-GAAP EPS	\$2.10	\$2.26	\$1.87	\$1.51	\$1.56	\$1.60	\$1.21	\$0.75	\$1.18
Diluted Shares Outstanding	240	238	236	235	234	234	234	261	285
Non-GAAP Diluted Shares Outstanding <sup>1</sup>	240	238	236	235	234	234	234	263	290
<b>Reconciliation of Income Tax Provision as a percentage of pre-tax income to Non-GAAP income tax provision as a percentage of non-GAAP pre-tax income</b>									
Net income (loss)	\$423	\$438	\$384	\$220	\$283	\$251	\$74	\$(366)	\$(366)
Income tax expense (benefit)	37	20	28	27	31	(7)	6	(119)	95
Pre-tax income	\$460	\$458	\$412	\$247	\$314	\$244	\$80	\$(485)	\$(271)
Income tax provision as a percentage of pre-tax income	8%	4%	7%	11%	10%	-3%	8%	25%	-35%
Non-GAAP Net Income	\$504	\$539	\$441	\$356	\$366	\$374	\$283	\$198	\$341
Add:									
Income tax expense (benefit)	37	20	28	27	31	(7)	6	(119)	95
Income tax adjustments	-	-	-	-	-	28	20	95	(31)
Non-GAAP income tax expense (benefit)	37	20	28	27	31	21	26	(24)	64
Non-GAAP pre-tax income	\$541	\$559	\$469	\$383	\$397	\$395	\$309	\$174	\$405
Non-GAAP income tax provision as a percentage of pre-tax income	7%	4%	6%	7%	8%	5%	8%	-14%	16%

**Footnote 1:** Non-GAAP diluted shares outstanding are equivalent to GAAP diluted shares outstanding except in periods when a net loss is reported on a GAAP basis, but net income is reported on a non-GAAP basis. Dilutive shares are not included in the calculation of EPS when a net loss is reported.

## Non-GAAP Financial Measures

This schedule contains non-GAAP financial 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.

**Free Cash Flow:** Free cash flow is a non-GAAP financial measure defined as cash flows from operations less purchases of property, plant and equipment, net of proceeds from sales of property, plant, and equipment, and the net activity in notes receivable and investments in Flash Ventures. We consider free cash flow to be useful as an indicator of our overall liquidity, as the amount of free cash flow generated in any period is representative of cash that is available for strategic opportunities including, among others, investing in the Company's business, making strategic acquisitions, strengthening the balance sheet, repaying debt, paying dividends and repurchasing stock.

**Non-GAAP Gross Margin and Non-GAAP Gross Profit:** Non-GAAP gross margin is a non-GAAP measure defined as non-GAAP gross profit divided by revenue. Non-GAAP gross profit is a non-GAAP measure defined as gross profit before any charges to cost of goods sold that may not be indicative of ongoing operations. We believe that non-GAAP gross profit is a useful measure to investors as an alternative method for measuring our operating performance and comparing it against prior periods' performance.

**Non-GAAP Operating Expenses:** Non-GAAP operating expenses is a non-GAAP measure defined as operating expenses before any charges that may not be indicative of ongoing operations. We believe that non-GAAP operating expenses is a useful measure to investors as an alternative method for measuring our expense management and comparing it against prior periods' performance.

**Non-GAAP Operating Income:** Non-GAAP operating income is a non-GAAP measure defined as operating income before any charges that may not be indicative of ongoing operations. We believe that non-GAAP operating income is a useful measure to investors as an alternative method for measuring our income from operations and comparing it against prior periods' performance.

**Non-GAAP Interest and other expense, net:** Non-GAAP interest and other expense, net is a non-GAAP measure defined as interest and other expense, net before any charges that may not be indicative of ongoing operations. We believe that non-GAAP interest and other expense, net is a useful measure to investors as an alternative method for measuring our expense management and comparing it against prior periods' performance.

**Non-GAAP Net Income and Non-GAAP EPS:** Non-GAAP net income and non-GAAP EPS are non-GAAP measures defined as net income and EPS, respectively, before any charges that may not be indicative of ongoing operations, or any tax impact related to those charges. We believe that non-GAAP net income and non-GAAP EPS are useful measures to investors as an alternative method for measuring our earnings performance and comparing it against prior periods' performance.

**Non-GAAP income tax provision as a percentage of non-GAAP pre-tax income:** Non-GAAP income tax provision is a non-GAAP measure defined as income tax provision plus any income tax adjustments that may not be indicative of ongoing operations. We believe that non-GAAP income tax provision as a percentage of non-GAAP pre-tax income is a useful measure to investors as an alternative method for measuring our effective tax rate and comparing it against prior periods' performance.

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 indicative of the underlying performance of our business.

**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.

**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.

**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, which was resolved in February 2016, 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, 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.

**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.

**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.

## Forward-Looking Statements

Our non-GAAP earnings per share guidance for the second fiscal quarter ending December 30, 2016 of \$1.60 includes stock-based compensation, but excludes the amortization of acquired intangible assets consisting of \$241 million in net income, or \$0.82 diluted earnings per share. The timing and amount of additional charges we exclude from our non-GAAP financial measures are dependent on the timing of certain actions and cannot be reasonably predicted. In addition, our estimate for the amortization of acquired intangible assets is based on preliminary allocations of the SanDisk purchase price and may be adjusted as the company finalizes the valuation of these acquired assets. Accordingly, a reconciliation of non-GAAP diluted earnings per share to the most directly comparable GAAP financial measure of diluted earnings per share is not available without unreasonable effort.

This schedule contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning the company's anticipated financial results for its second fiscal quarter ending December 30, 2016. 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. 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; 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; 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-K filed with the SEC on August 29, 2016, 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.