
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 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): July 28, 2016

Western Digital Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation)

001-08703
(Commission
File Number)

33-0956711
(IRS Employer
Identification No.)

3355 Michelson Drive, Suite 100
Irvine, California
(Address of principal executive offices)

92612
(Zip Code)

(949) 672-7000
(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))
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Item 2.02 Results of Operations and Financial Condition.

On July 28, 2016, Western Digital Corporation (“Western Digital”) announced financial results for the fourth fiscal quarter and fiscal year ended July 1, 2016. A copy of the press release making this announcement is attached hereto as Exhibit 99.1 and is incorporated herein by reference. A copy of Western Digital’s Quarterly Fact Sheet for the fourth fiscal quarter ended July 1, 2016 is attached hereto as Exhibit 99.2 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 and Exhibit 99.2, 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 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 99.1 Press Release issued by Western Digital Corporation on July 28, 2016 announcing financial results for the fourth fiscal quarter and fiscal year ended July 1, 2016.
- 99.2 Fourth Quarter Fiscal Year 2016 Western Digital Corporation Quarterly Fact Sheet.

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: July 28, 2016

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



FOR IMMEDIATE RELEASE:

**WESTERN DIGITAL ANNOUNCES FINANCIAL RESULTS FOR
FOURTH QUARTER AND FISCAL YEAR 2016**

IRVINE, Calif. — July 28, 2016 — Western Digital Corp. (NASDAQ: WDC) today reported revenue of \$3.5 billion and a net loss of \$351 million, or \$1.34 per share, for its fourth fiscal quarter ended July 1, 2016. On a non-GAAP basis, fourth quarter net income was \$208 million, or \$0.79 per share. In the year-ago quarter, the company reported revenue of \$3.2 billion and net income of \$220 million, or \$0.94 per share. Non-GAAP net income in the year-ago quarter was \$356 million, or \$1.51 per share.

The company generated \$355 million in cash from operations during the fourth fiscal quarter of 2016, ending with total cash and cash equivalents of \$8.2 billion. On May 4, 2016, the company declared a cash dividend of \$0.50 per share of its common stock, which was paid to shareholders on July 15, 2016.

For fiscal 2016, the company achieved revenue of \$13.0 billion and net income of \$257 million, or \$1.06 per share, compared to fiscal 2015 revenue of \$14.6 billion and net income of \$1.5 billion, or \$6.18 per share. On a non-GAAP basis, fiscal 2016 net income was \$1.2 billion, or \$5.09 per share, compared to fiscal 2015 net income of \$1.8 billion, or \$7.76 per share. The company generated \$2.0 billion in cash from operations during the 2016 fiscal year and it returned \$524 million in dividends and share repurchases combined.

“Fiscal 2016 was a transformative year for our company and we are pleased by our customers’ response to the new Western Digital,” said Steve Milligan, chief executive officer. “With the combination of SanDisk and our WD and HGST subsidiaries, we are well-positioned to capture global opportunities through our full portfolio of products for data center, client device and client solution end markets. As we begin a new fiscal year, we remain focused on execution and realizing the benefits of our acquisitions while at the same time creating innovative solutions for the market.”

The investment community conference call to discuss these results will be broadcast live at 2 p.m. Pacific/5 p.m. Eastern via webcast today. The live and archived conference call/webcast can be accessed online at investor.wdc.com. A quarterly fact sheet including the company's guidance for the first fiscal quarter 2017 will also be posted on the same website. The telephone replay number is +1 (855) 859-2056 in the U.S. or +1 (404) 537-3406 for international callers. The required passcode is 46180701.

About Western Digital

Western Digital is an industry-leading provider of storage technologies and solutions that enable people to create, leverage, experience and preserve data. The company addresses ever-changing market needs by providing a full portfolio of compelling, high-quality storage solutions with customer-focused innovation, high efficiency, flexibility and speed. Our products are marketed under the HGST, SanDisk and WD brands to OEMs, distributors, resellers, cloud infrastructure providers and consumers. 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 fourth fiscal quarter ended July 1, 2016; expectations regarding the company's transformation, growth opportunities and strategy execution; and integration activities and the realization of the benefits of the company's acquisitions. 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 fourth fiscal quarter ended July 1, 2016 included in this press release represent the most current information available to management. The company's actual results when disclosed in its Annual Report on Form 10-K may differ from these preliminary results as a result of the completion of the company's financial closing procedures; final adjustments; completion of the audit 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; 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 and SanDisk Corporation's Forms 10-Q filed with the SEC on May 9, 2016 and May 2, 2016, respectively, 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, WD, the HGST logo, SanDisk and G-Technology are registered trademarks or trademarks of Western Digital Corporation or its affiliates in the U.S. and/or other countries. Other trademarks, registered trademarks, and/or service marks, indicated or otherwise, are the property of their respective owners.

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WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited)

	July 1, 2016	July 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,151	\$ 5,024
Short-term investments	227	262
Accounts receivable, net	1,461	1,532
Inventories	2,129	1,368
Other current assets	616	331
Total current assets	12,584	8,517
Property, plant and equipment, net	3,508	2,965
Notes receivable and investments in Flash Ventures	1,171	—
Goodwill	9,951	2,766
Other intangible assets, net	5,034	332
Other non-current assets	629	601
Total assets	<u>\$32,877</u>	<u>\$15,181</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,888	\$ 1,881
Accounts payable to related parties	168	—
Accrued expenses	995	470
Accrued compensation	392	330
Accrued warranty	172	150
Revolving credit facility	—	255
Bridge loan	2,995	—
Current portion of long-term debt	339	156
Total current liabilities	6,949	3,242
Long-term debt	13,660	2,156
Other liabilities	1,108	564
Total liabilities	21,717	5,962
Total shareholders' equity	11,160	9,219
Total liabilities and shareholders' equity	<u>\$32,877</u>	<u>\$15,181</u>

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts; unaudited)

	Three Months Ended		Years Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Revenue, net	\$ 3,495	\$ 3,191	\$12,994	\$14,572
Cost of revenue	2,674	2,261	9,559	10,351
Gross profit	821	930	3,435	4,221
Operating expenses:				
Research and development	484	381	1,617	1,646
Selling, general and administrative	400	190	997	788
Employee termination, asset impairment and other charges	117	104	340	176
Total operating expenses	1,001	675	2,954	2,610
Operating income (loss)	(180)	255	481	1,611
Interest and other expense, net	(290)	(8)	(313)	(34)
Income (loss) before income taxes	(470)	247	168	1,577
Income tax expense (benefit)	(119)	27	(89)	112
Net income (loss)	\$ (351)	\$ 220	\$ 257	\$ 1,465
Income (loss) per common share:				
Basic	\$ (1.34)	\$ 0.95	\$ 1.08	\$ 6.31
Diluted	\$ (1.34)	\$ 0.94	\$ 1.06	\$ 6.18
Weighted average shares outstanding:				
Basic	261	231	239	232
Diluted	261	235	242	237

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	Three Months Ended		Years Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Operating Activities				
Net income (loss)	\$ (351)	\$ 220	\$ 257	\$ 1,465
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	420	250	1,154	1,114
Stock-based compensation	70	45	191	162
Deferred income taxes	(132)	19	(149)	28
Gain from insurance recovery	—	—	—	(37)
Loss on disposal of assets	8	3	22	17
Amortization of debt discount and issuance costs	36	—	36	—
Convertible debt activity, net	58	—	58	—
Non-cash portion of employee termination, asset impairment and other charges	1	74	36	86
Other non-cash operating activities, net	11	—	11	—
Changes in operating assets and liabilities, net	234	(123)	367	(593)
Net cash provided by operating activities	355	488	1,983	2,242
Investing Activities				
Purchases of property, plant and equipment	(151)	(156)	(584)	(612)
Note receivable with Flash Ventures, net	(90)	—	(90)	—
Acquisitions, net of cash acquired	(9,835)	(10)	(9,835)	(257)
Purchases of investments	(143)	(170)	(605)	(857)
Proceeds from sales and maturities of investments	676	103	1,582	768
Strategic investments and other, net	(54)	(8)	(76)	5
Net cash used in investing activities	(9,597)	(241)	(9,608)	(953)
Financing Activities				
Employee stock plans, net	55	55	74	167
Settlement of warrants	(613)	—	(613)	—
Settlement of convertible debt, net	(2,202)	—	(2,202)	—
Repurchases of common stock	—	(198)	(60)	(970)
Dividends paid to shareholders	(116)	(116)	(464)	(396)
Proceeds from debt, net of issuance costs	16,709	255	16,709	255
Repayment of debt	(2,328)	(31)	(2,693)	(125)
Net cash provided by (used in) financing activities	11,505	(35)	10,751	(1,069)
Effect of changes in foreign currency exchange rates on cash	1	—	1	—
Net increase in cash and cash equivalents	2,264	212	3,127	220
Cash and cash equivalents, beginning of period	5,887	4,812	5,024	4,804
Cash and cash equivalents, end of period	\$ 8,151	\$ 5,024	\$ 8,151	\$ 5,024

WESTERN DIGITAL CORPORATION

GAAP TO NON-GAAP NET INCOME (LOSS) RECONCILIATION

(in millions, except per share amounts; unaudited)

	Three Months Ended		Years Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
GAAP net income (loss)	\$ (351)	\$ 220	\$ 257	\$1,465
Non-GAAP adjustments:				
Amortization of acquired intangible assets	187	28	258	163
Employee termination, asset impairment and other charges	117	104	340	176
Acquisition-related charges	238	—	281	3
Charges related to cost saving initiatives	57	—	143	—
Convertible debt activity, net	58	—	58	—
Insurance recoveries	—	—	—	(37)
Other	(3)	4	37	70
Income tax adjustments	(95)	—	(143)	—
Non-GAAP net income	<u>\$ 208</u>	<u>\$ 356</u>	<u>\$1,231</u>	<u>\$1,840</u>
Diluted net income (loss) per common share:				
GAAP	\$ (1.34)	\$ 0.94	\$ 1.06	\$ 6.18
Non-GAAP	<u>\$ 0.79</u>	<u>\$ 1.51</u>	<u>\$ 5.09</u>	<u>\$ 7.76</u>
Diluted weighted average shares outstanding:				
GAAP	261	235	242	237
Non-GAAP	<u>263</u>	<u>235</u>	<u>242</u>	<u>237</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 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.

Non-GAAP net income and Non-GAAP diluted net income per common share are non-GAAP measures defined as net income and diluted net income per common share, respectively, before any charges that may not be indicative of ongoing operations, or any tax impact related to those charges. These Non-GAAP measures exclude: amortization of acquired intangible assets; employee termination, asset impairment and other charges; convertible debt activity, net; charges related to cost saving initiatives; acquisition-related charges; insurance recoveries; other charges; and income tax adjustments.

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.

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 or the ongoing results of our business.

Charges related to cost saving initiatives. In connection with the transformation of our business, beginning in the 2nd quarter of fiscal 2016, 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 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.

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 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.

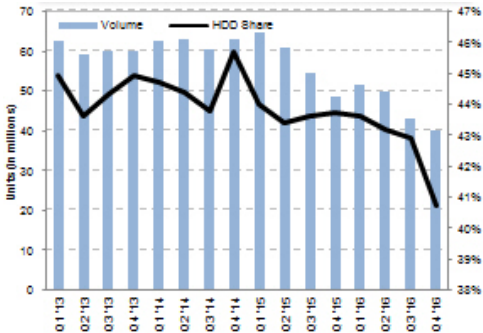
Other charges. From time-to-time, we sell investments or other assets which are not considered strategic or necessary to our business; are a party to legal or arbitration proceedings, which could result in an expense or benefit due to settlements, final judgments, or accruals for loss contingencies; 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.

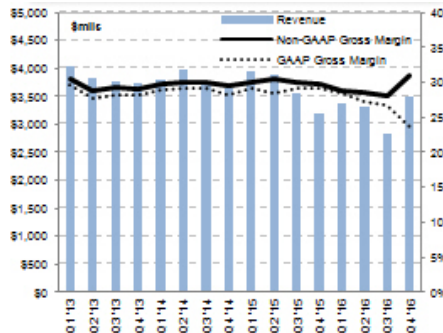
Amounts in millions, except per share amounts, ASP, percentages¹

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	FY13	FY13	FY13	FY13	FY14	FY14	FY14	FY14	FY15	FY15	FY15	FY15	FY16	FY16	FY16	FY16
Revenue	\$ 4,035	\$ 3,824	\$ 3,764	\$ 3,728	\$ 3,804	\$ 3,972	\$ 3,703	\$ 3,651	\$ 3,943	\$ 3,888	\$ 3,550	\$ 3,191	\$ 3,360	\$ 3,317	\$ 2,822	\$ 3,495
Gross Profit	\$ 1,193	\$ 1,059	\$ 1,061	\$ 1,050	\$ 1,099	\$ 1,156	\$ 1,076	\$ 1,029	\$ 1,149	\$ 1,110	\$ 1,032	\$ 930	\$ 955	\$ 906	\$ 753	\$ 821
Gross Margin	29.6%	27.7%	28.2%	28.2%	28.9%	29.1%	29.1%	28.2%	29.1%	28.5%	29.1%	29.1%	28.4%	27.3%	26.7%	23.5%
R&D	\$ 396	\$ 378	\$ 396	\$ 402	\$ 401	\$ 416	\$ 418	\$ 426	\$ 437	\$ 426	\$ 402	\$ 381	\$ 385	\$ 389	\$ 359	\$ 484
SG&A	179	162	185	180	132	226	201	202	220	164	199	190	192	207	166	400
Other	26	41	63	689	24	36	38	49	23	54	10	104	56	59	140	117
Total Operating Expenses	\$ 601	\$ 581	\$ 644	\$ 1,271	\$ 557	\$ 678	\$ 657	\$ 677	\$ 680	\$ 644	\$ 611	\$ 675	\$ 633	\$ 655	\$ 665	\$ 1,001
Operating Income (Loss)	\$ 592	\$ 478	\$ 417	\$ (221)	\$ 542	\$ 478	\$ 419	\$ 352	\$ 469	\$ 466	\$ 421	\$ 255	\$ 322	\$ 251	\$ 88	\$ (180)
Interest & Other Expense, net	\$ 14	\$ 10	\$ 11	\$ 9	\$ 10	\$ 11	\$ 13	\$ 5	\$ 9	\$ 8	\$ 9	\$ 8	\$ 8	\$ 7	\$ 8	\$ 290
Net Income (Loss)	\$ 519	\$ 335	\$ 391	\$ (265)	\$ 495	\$ 430	\$ 375	\$ 317	\$ 423	\$ 438	\$ 384	\$ 220	\$ 283	\$ 251	\$ 74	\$ (351)
EPS	\$ 2.06	\$ 1.36	\$ 1.60	\$ (1.12)	\$ 2.05	\$ 1.77	\$ 1.55	\$ 1.32	\$ 1.76	\$ 1.84	\$ 1.63	\$ 0.94	\$ 1.21	\$ 1.07	\$ 0.32	\$ (1.34)
Diluted Shares Outstanding	252	246	245	236	242	243	242	241	240	238	236	235	234	234	234	261
Non-GAAP Results																
Gross Profit ¹⁰	\$ 1,231	\$ 1,097	\$ 1,099	\$ 1,085	\$ 1,135	\$ 1,196	\$ 1,115	\$ 1,078	\$ 1,188	\$ 1,187	\$ 1,069	\$ 951	\$ 972	\$ 944	\$ 794	\$ 1,084
Gross Margin ¹⁰	30.5%	28.7%	29.2%	29.1%	29.8%	30.1%	30.1%	29.5%	30.1%	30.5%	30.1%	29.8%	28.9%	28.5%	28.1%	31.0%
Operating Expenses ¹⁰	\$ 564	\$ 529	\$ 559	\$ 564	\$ 574	\$ 616	\$ 605	\$ 598	\$ 638	\$ 620	\$ 591	\$ 560	\$ 567	\$ 542	\$ 477	\$ 691
Net Income	\$ 594	\$ 513	\$ 514	\$ 477	\$ 514	\$ 532	\$ 470	\$ 445	\$ 504	\$ 539	\$ 441	\$ 356	\$ 366	\$ 374	\$ 283	\$ 208
EPS	\$ 2.36	\$ 2.09	\$ 2.10	\$ 1.96	\$ 2.12	\$ 2.19	\$ 1.94	\$ 1.85	\$ 2.10	\$ 2.26	\$ 1.87	\$ 1.51	\$ 1.56	\$ 1.60	\$ 1.21	\$ 0.79
Diluted Shares Outstanding ⁹	252	246	245	243	242	243	242	241	240	238	236	235	234	234	234	263
Revenue By Channel																
OEM	63%	61%	60%	66%	64%	62%	62%	65%	63%	63%	64%	67%	67%	65%	66%	63%
Distributors	24%	24%	26%	23%	24%	24%	25%	23%	24%	23%	24%	21%	21%	21%	22%	19%
Retail	13%	15%	14%	11%	12%	14%	13%	12%	13%	14%	13%	12%	12%	14%	12%	18%
Revenue by Geography																
Americas	23%	27%	27%	28%	26%	25%	25%	24%	27%	27%	29%	32%	30%	31%	30%	38%
EMEA	18%	23%	22%	19%	20%	23%	21%	20%	21%	24%	21%	21%	21%	23%	23%	19%
Asia/ANZ	59%	50%	51%	53%	54%	52%	54%	56%	52%	49%	50%	47%	49%	46%	47%	43%
Revenue																
Client Solutions ¹⁴	\$ 2,650	\$ 2,259	\$ 2,168	\$ 2,109	\$ 2,198	\$ 2,226	\$ 2,126	\$ 2,170	\$ 2,255	\$ 2,089	\$ 1,820	\$ 1,546	\$ 1,670	\$ 1,581	\$ 1,370	\$ 1,584
Client Solutions ¹⁴	500	568	500	401	455	543	479	444	504	528	452	366	399	459	346	666
Data Center Devices & Solutions ¹⁴	885	997	1,096	1,218	1,151	1,203	1,098	1,037	1,184	1,271	1,278	1,279	1,291	1,277	1,106	1,245
Total Revenue	\$ 4,035	\$ 3,824	\$ 3,764	\$ 3,728	\$ 3,804	\$ 3,972	\$ 3,703	\$ 3,651	\$ 3,943	\$ 3,888	\$ 3,550	\$ 3,191	\$ 3,360	\$ 3,317	\$ 2,822	\$ 3,495
Exabytes Shipped																
Client Solutions	28.0	28.0	28.1	27.9	30.4	33.0	32.9	34.8	39.1	37.6	34.3	30.5	34.3	35.3	31.7	32.0
Client Solutions	7.0	8.7	7.9	6.8	7.9	9.6	8.6	8.2	9.8	11.0	9.6	8.2	9.2	11.3	8.5	9.5
Data Center Devices & Solutions	9.3	10.9	12.4	13.0	12.5	12.5	12.1	12.2	15.9	17.8	17.4	17.5	20.0	22.5	22.8	24.6
Total Exabytes Shipped ¹³	44.3	47.6	48.4	47.7	50.8	55.1	53.6	55.2	64.8	66.4	61.3	56.2	63.5	69.1	63.0	66.1
R4Q EB Shipped	45.9	93.0	140.8	188.0	194.5	202.0	207.2	214.7	228.7	240.0	247.7	248.7	247.4	250.1	251.8	261.7
HDD TAM	139.1	135.8	135.9	133.3	140.2	142.2	138.1	138.0	147.3	140.8	125.0	111.0	118.7	115.1	100.5	98.5
HDD Share	44.9%	43.6%	44.3%	44.9%	44.7%	44.4%	43.8%	45.7%	44.0%	43.4%	43.6%	43.7%	43.6%	43.2%	42.9%	40.7%
HDD Units ²	62.5	59.2	60.2	59.9	62.6	63.1	60.4	63.1	64.7	61.0	54.5	48.5	51.7	49.7	43.1	40.1
HDD ASP	\$ 62	\$ 62	\$ 61	\$ 60	\$ 58	\$ 60	\$ 58	\$ 56	\$ 58	\$ 60	\$ 61	\$ 60	\$ 60	\$ 61	\$ 60	\$ 63
HDD PC Units⁵																
HDD Notebook Units	25,887	21,300	21,547	23,989	22,912	22,662	21,814	22,899	23,396	21,178	18,785	15,513	15,804	15,318	13,577	11,449
HDD Desktop Units	16,819	17,717	18,383	16,185	17,307	16,825	16,635	16,182	16,320	15,375	13,523	11,601	11,683	12,458	10,681	7,924
HDD Non-PC Units																
HDD Consumer Electronics																
Units ⁴	8,019	6,452	6,517	6,544	8,474	8,794	8,573	10,906	10,485	9,295	8,610	9,056	11,484	8,461	7,318	10,038
HDD Branded Units	5,767	7,139	6,517	5,281	6,146	7,018	6,272	6,012	6,780	7,156	6,090	5,151	5,575	6,443	5,157	4,709
HDD Enterprise Units	5,988	6,633	7,211	7,897	7,771	7,783	7,129	7,098	7,763	8,041	7,519	7,199	7,185	7,008	6,390	5,994
Total HDD Units	62,480	59,241	60,175	59,896	62,610	63,082	60,423	63,097	64,744	61,045	54,527	48,520	51,731	49,688	43,123	40,114

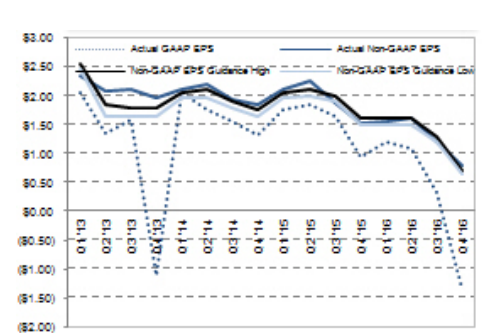
Volume and HDD Share²



Revenue, GAAP and Non-GAAP Gross Margin¹⁰



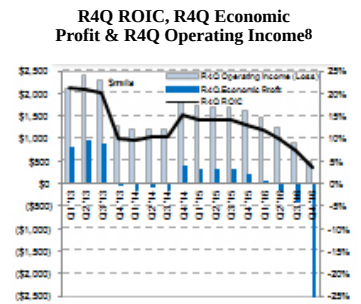
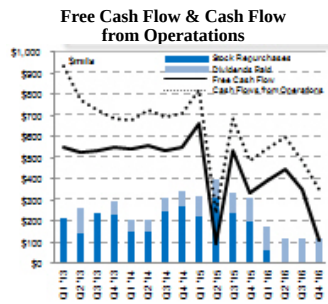
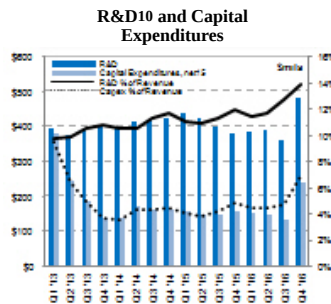
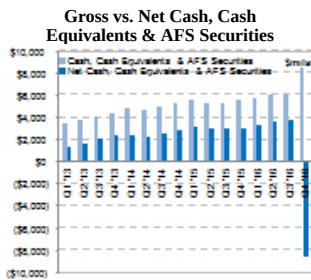
GAAP & Non-GAAP EPS Analysis



Note: Refer to "Non-GAAP Financial Measures" for information about non-GAAP financial measures included in this quarterly fact sheet.



Balance sheet, cash flows, earnings, dividends and share repurchase amounts in millions	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16
Cash and Cash Equivalents	\$ 3,537	\$ 3,816	\$ 4,060	\$ 4,309	\$ 4,869	\$ 4,655	\$ 4,569	\$ 4,804	\$ 5,159	\$ 4,902	\$ 4,812	\$ 5,024	\$ 5,081	\$ 5,363	\$ 5,887	\$ 8,151
Available-for-Sale (AFS) Securities	—	—	—	—	—	—	470	499	454	465	523	590	704	732	146	345
Debt	(2,128)	(2,128)	(2,013)	(1,955)	(2,398)	(2,340)	(2,469)	(2,438)	(2,406)	(2,375)	(2,344)	(2,567)	(2,536)	(2,505)	(2,203)	(16,994)
Net Cash, Cash Equivalents & AFS Securities	\$ 1,409	\$ 1,688	\$ 2,047	\$ 2,354	\$ 2,471	\$ 2,315	\$ 2,570	\$ 2,865	\$ 3,207	\$ 2,992	\$ 2,991	\$ 3,047	\$ 3,249	\$ 3,590	\$ 3,830	\$ (8,498)
Cash Flow From Operations	\$ 936	\$ 772	\$ 727	\$ 684	\$ 680	\$ 727	\$ 697	\$ 713	\$ 827	\$ 243	\$ 684	\$ 488	\$ 545	\$ 598	\$ 485	\$ 355
Free Cash Flow	\$ 554	\$ 526	\$ 539	\$ 548	\$ 544	\$ 557	\$ 536	\$ 552	\$ 667	\$ 97	\$ 534	\$ 332	\$ 394	\$ 449	\$ 352	\$ 114
Capital Expenditures, net ¹⁵	\$ 382	\$ 246	\$ 188	\$ 136	\$ 136	\$ 170	\$ 161	\$ 161	\$ 160	\$ 146	\$ 150	\$ 156	\$ 151	\$ 149	\$ 133	\$ 241
Depreciation and Amortization	\$ 313	\$ 309	\$ 309	\$ 302	\$ 312	\$ 317	\$ 307	\$ 308	\$ 289	\$ 290	\$ 285	\$ 250	\$ 236	\$ 252	\$ 246	\$ 420
EBITDA	\$ 905	\$ 787	\$ 726	\$ 81	\$ 854	\$ 795	\$ 726	\$ 660	\$ 758	\$ 756	\$ 706	\$ 505	\$ 558	\$ 503	\$ 334	\$ 240
Accounts Receivable, Net	\$ 1,951	\$ 1,732	\$ 1,700	\$ 1,793	\$ 1,791	\$ 1,959	\$ 1,802	\$ 1,989	\$ 1,915	\$ 1,880	\$ 1,696	\$ 1,532	\$ 1,616	\$ 1,650	\$ 1,254	\$ 1,461
Inventory	\$ 237	\$ 193	\$ 191	\$ 167	\$ 208	\$ 201	\$ 204	\$ 168	\$ 178	\$ 154	\$ 173	\$ 168	\$ 135	\$ 130	\$ 133	\$ 571
Work in Process	559	581	583	575	579	581	519	493	509	510	498	500	507	474	440	636
Finished Goods	508	430	423	446	457	511	554	565	585	618	651	700	618	634	654	922
Total Inventory	\$ 1,304	\$ 1,204	\$ 1,197	\$ 1,188	\$ 1,244	\$ 1,293	\$ 1,277	\$ 1,226	\$ 1,272	\$ 1,282	\$ 1,322	\$ 1,368	\$ 1,260	\$ 1,238	\$ 1,227	\$ 2,129
Property, Plant and Equipment, Net	\$ 4,027	\$ 3,938	\$ 3,803	\$ 3,700	\$ 3,638	\$ 3,509	\$ 3,406	\$ 3,293	\$ 3,202	\$ 3,099	\$ 3,051	\$ 2,965	\$ 2,890	\$ 2,801	\$ 2,687	\$ 3,508
Accounts Payable	\$ 2,545	\$ 2,185	\$ 2,037	\$ 1,990	\$ 2,061	\$ 2,106	\$ 1,902	\$ 1,971	\$ 2,016	\$ 2,071	\$ 2,020	\$ 1,881	\$ 1,799	\$ 1,806	\$ 1,571	\$ 1,888
Accounts Payable to Related Parties	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 168
Days Sales Outstanding ¹¹	44	41	41	44	43	45	44	50	48	44	44	44	44	45	40	38
Days Inventory Outstanding ¹¹	42	40	40	40	42	42	44	42	45	42	48	55	48	47	54	72
Days Payables Outstanding ¹¹	82	72	69	67	69	68	65	68	71	68	73	76	68	68	69	70
Cash Conversion Cycle ¹¹	4	9	12	17	16	19	23	24	22	18	19	23	24	24	25	40
Inventory Turns ¹¹	9	9	9	9	9	9	8	9	8	9	8	7	8	8	7	5
Dividends Paid	\$ —	\$ 121	\$ —	\$ 60	\$ 59	\$ 59	\$ 71	\$ 70	\$ 94	\$ 94	\$ 93	\$ 116	\$ 115	\$ 116	\$ 116	\$ 116
Shares Repurchased	5.2	4.2	5.2	4.4	2.3	2.0	2.8	3.2	2.2	3.2	2.2	2.0	0.7	—	—	—
Shares Repurchased	218	146	243	235	150	150	244	272	223	309	240	198	60	—	—	—
Remaining Amount Authorized	\$ 2,594	\$ 2,448	\$ 2,205	\$ 1,970	\$ 1,820	\$ 1,670	\$ 1,426	\$ 1,154	\$ 931	\$ 622	\$ 2,382	\$ 2,184	\$ 2,124	\$ 2,124	\$ 2,124	\$ 2,124
R4Q Economic Profit ⁸	\$ 801	\$ 976	\$ 884	\$ (59)	\$ (176)	\$ (109)	\$ (158)	\$ 415	\$ 332	\$ 328	\$ 320	\$ 203	\$ 52	\$ (157)	\$ (440)	\$ (2,527)
R4Q ROIC ⁸	21.3%	21.0%	20.0%	10.1%	9.7%	10.5%	10.2%	15.1%	14.2%	14.1%	14.1%	13.1%	11.7%	10.0%	7.4%	3.6%
R4Q ROA ⁸	14.9%	14.7%	14.2%	7.0%	6.7%	7.2%	7.0%	10.6%	10.0%	10.1%	10.2%	9.6%	8.7%	7.5%	5.4%	1.3%
Worldwide Headcount ³	96,002	93,820	87,565	85,777	87,586	87,976	84,556	84,072	83,277	83,993	80,767	76,449	76,052	74,891	67,884	72,878



Note: Refer to "Non-GAAP Financial Measures" for information about non-GAAP financial measures included in this quarterly fact sheet.

Debt Tranches and Interest Rates

Debt	Base Rate	Tenor	Maturity	Original Principal Amount	Balance Outstanding as of 7/1/16 ^A	Indicative Rates bps ^B
Revolver drawn ^C	L+200	5 years		\$ 0	\$ 0	2.468%
Bridge Loan	L+200	7/26/2016 ^D		\$ 3,000	\$ 3,000	2.468%
Term Loan A (floor of 0bps)	L+200	5 years	April 29, 2021	\$ 4,125	\$ 4,125	2.468%
Term Loan B Dollar (floor of 75bps)	L+550	7 years	April 29, 2023	\$ 3,750	\$ 3,750	6.250%
Term Loan B Euro (floor of 75 bps) ^E	E+525	7 years	April 29, 2023	\$ 987	\$ 987	6.000%
Sr. Secured Notes Due 2023 ^F	7.375%	7 years	April 1, 2023	\$ 1,875	\$ 1,875	7.375%
Sr. Unsecured Notes Due 2024 ^F	10.500%	8 years	April 1, 2024	\$ 3,350	\$ 3,350	10.500%
Total				\$ 17,087	\$ 17,087	5.615% ^G

Weighted average interest rate excluding the Bridge Loan 6.285%^G

- A Excluding Original Issue Discount and fees
- B L = 1 Month LIBOR, E = 1 Month EURIBOR
- B Based on current leverage ratios
- C Revolver capacity: \$1,000M
- D Cash bridge contractual maturity date—Paid off on July 21, 2016
- E Principal in EURO denominated debt = Euro 885M, converted at Fiscal Month EUR/USD balance sheet rate of 1.11508
- F Notes are callable in 3 years (starting April 1, 2019)
- G Weighted average interest rate as of July 1, 2016

The schedule above excludes convertible debt assumed in connection with the acquisition of SanDisk

Estimated Effective Tax Ranges (Non-GAAP)

FY17 :	15% - 20%
FY18 – FY23 :	10% - 15%
Beyond FY23 :	7% - 10%

In millions, except gross margin and per share amounts	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16
Reconciliation of Cash Flows from Operations to Free Cash Flow																
Cash Flows from Operations	\$ 936	\$ 772	\$ 727	\$ 684	\$ 680	\$ 727	\$ 697	\$ 713	\$ 827	\$ 243	\$ 684	\$ 488	\$ 545	\$ 598	\$ 485	\$ 355
Purchases of Property, Plant and Equipment, net	(382)	(246)	(188)	(136)	(136)	(170)	(161)	(161)	(160)	(146)	(150)	(156)	(151)	(149)	(133)	(151)
Note Receivable with Flash Ventures, net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(90)
Free Cash Flow	\$ 554	\$ 526	\$ 539	\$ 548	\$ 544	\$ 557	\$ 536	\$ 552	\$ 667	\$ 97	\$ 534	\$ 332	\$ 394	\$ 449	\$ 352	\$ 114
Reconciliation of Net Income to EBITDA																
Net Income (Loss)	\$ 519	\$ 335	\$ 391	\$ (265)	\$ 495	\$ 430	\$ 375	\$ 317	\$ 423	\$ 438	\$ 384	\$ 220	\$ 283	\$ 251	\$ 74	\$ (351)
Interest and Other Expense, net	14	10	11	9	10	11	13	5	9	8	9	8	8	7	8	290
Income Tax Expense (Benefit)	59	133	15	35	37	37	31	30	37	20	28	27	31	(7)	6	(119)
Depreciation and Amortization	313	309	309	302	312	317	307	308	289	290	285	250	236	252	246	420
EBITDA	\$ 905	\$ 787	\$ 726	\$ 81	\$ 854	\$ 795	\$ 726	\$ 660	\$ 758	\$ 756	\$ 706	\$ 505	\$ 558	\$ 503	\$ 334	\$ 240
Reconciliation of Operating Income (Loss) to R4Q Economic Profit																
Operating Income (Loss)	\$ 592	\$ 478	\$ 417	\$ (221)	\$ 542	\$ 478	\$ 419	\$ 352	\$ 469	\$ 466	\$ 421	\$ 255	\$ 322	\$ 251	\$ 88	\$ (180)
Income Tax (Expense) Benefit	(59)	(133)	(15)	(35)	(37)	(37)	(31)	(30)	(37)	(20)	(28)	(27)	(31)	7	(6)	119
Net Operating Profit After Taxes	533	345	402	(256)	505	441	388	322	432	446	393	228	291	258	82	(61)
R4Q Net Operating Profit After Taxes	1,919	2,117	2,032	1,024	996	1,092	1,078	1,656	1,583	1,588	1,593	1,499	1,358	1,170	859	570
Invested Capital x WACC	(1,118)	(1,141)	(1,148)	(1,083)	(1,172)	(1,201)	(1,236)	(1,241)	(1,251)	(1,260)	(1,273)	(1,296)	(1,306)	(1,327)	(1,299)	(3,097)
R4Q Economic Profit	\$ 801	\$ 976	\$ 884	\$ (59)	\$ (176)	\$ (109)	\$ (158)	\$ 415	\$ 332	\$ 328	\$ 320	\$ 203	\$ 52	\$ (157)	\$ (440)	\$ (2,527)
Reconciliation of Gross Margin to Non-GAAP Gross Profit to Non-GAAP Gross Profit																
Gross Profit ¹⁰	\$ 1,193	\$ 1,059	\$ 1,061	\$ 1,050	\$ 1,099	\$ 1,156	\$ 1,076	\$ 1,029	\$ 1,149	\$ 1,110	\$ 1,032	\$ 930	\$ 955	\$ 906	\$ 753	\$ 821
Acquisition-related charges	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	122
Charges related to cost saving initiatives	—	—	—	—	—	—	—	—	—	—	—	—	—	22	25	27
Other charges	—	—	—	—	—	—	—	10	—	39	—	1	—	—	—	—
Amortization of acquired intangible assets	38	38	38	35	36	40	39	39	39	38	37	20	17	16	16	114
Non-GAAP Gross Profit ¹⁰	\$ 1,231	\$ 1,097	\$ 1,099	\$ 1,085	\$ 1,135	\$ 1,196	\$ 1,115	\$ 1,078	\$ 1,188	\$ 1,187	\$ 1,069	\$ 951	\$ 972	\$ 944	\$ 794	\$ 1,084
Revenue	\$ 4,035	\$ 3,824	\$ 3,764	\$ 3,728	\$ 3,804	\$ 3,972	\$ 3,703	\$ 3,651	\$ 3,943	\$ 3,888	\$ 3,550	\$ 3,191	\$ 3,360	\$ 3,317	\$ 2,822	\$ 3,495
Gross Margin ¹⁰	29.6%	27.7%	28.2%	28.2%	28.9%	29.1%	29.1%	28.2%	29.1%	28.5%	29.1%	29.1%	28.4%	27.3%	26.7%	23.5%
Non-GAAP Gross Margin ¹⁰	30.5%	28.7%	29.2%	29.1%	29.8%	30.1%	30.1%	29.5%	30.1%	30.5%	30.1%	29.8%	28.9%	28.5%	28.1%	31.0%
Reconciliation of Operating Expenses to Non-GAAP Operating Expenses																
Total Operating Expenses	\$ 601	\$ 581	\$ 644	\$ 1,271	\$ 557	\$ 678	\$ 657	\$ 677	\$ 680	\$ 644	\$ 611	\$ 675	\$ 633	\$ 655	\$ 665	\$ 1,001
Less:																
Amortization of acquired intangible assets	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(8)	(7)	(7)	(7)	(8)	(8)	(8)	(6)	(73)
Employee termination, asset impairment and other charges	(26)	(41)	(63)	(8)	(11)	(23)	(25)	(26)	(9)	(36)	(10)	(104)	(56)	(27)	(140)	(117)
Charges related to cost saving initiatives	—	—	—	(681)	(13)	(13)	(13)	(13)	(14)	(1)	—	—	—	(15)	(24)	(30)
Charges related to arbitration award	—	—	—	(7)	(13)	—	—	—	—	—	—	—	—	(32)	—	—
Acquisition-related charges	—	—	—	—	(65)	—	—	—	—	—	—	(3)	—	(27)	(16)	(116)
Charges and insurance recoveries related to flooding, net	—	—	—	—	—	—	—	—	—	37	—	—	—	—	—	—
Other charges	—	—	(11)	—	—	(15)	(3)	(32)	(12)	(17)	—	(3)	(2)	(4)	(2)	26
Non-GAAP Operating Expenses	\$ 564	\$ 529	\$ 559	\$ 564	\$ 574	\$ 616	\$ 605	\$ 598	\$ 638	\$ 620	\$ 591	\$ 560	\$ 567	\$ 542	\$ 477	\$ 691
Reconciliation of Net Income (Loss) to Non-GAAP Net Income																
Net Income (Loss)	\$ 519	\$ 335	\$ 391	\$ (265)	\$ 495	\$ 430	\$ 375	\$ 317	\$ 423	\$ 438	\$ 384	\$ 220	\$ 283	\$ 251	\$ 74	\$ (351)
Amortization of acquired intangible assets	49	49	49	46	47	51	50	47	46	45	44	28	25	24	22	187
Employee termination, asset impairment and other charges	26	41	63	8	11	23	25	36	9	53	10	104	56	27	140	117
Convertible Debt	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	58
Charges related to cost saving initiatives	—	—	—	—	—	—	—	—	—	—	—	—	—	37	49	57
Charges related to arbitration award	—	—	—	681	13	13	13	13	14	1	—	—	—	32	—	—
Acquisition-related charges	—	—	—	7	13	—	—	—	—	—	3	—	—	27	16	238
Charges and insurance recoveries related to flooding, net	—	—	—	—	(65)	—	—	—	—	(37)	—	—	—	—	—	—
Other charges	—	—	11	—	—	15	7	32	12	39	—	4	—	4	—	(3)
Income tax adjustments	—	88	—	—	—	—	—	—	—	—	—	—	—	(28)	(20)	(95)
Non-GAAP Net Income	\$ 594	\$ 513	\$ 514	\$ 477	\$ 514	\$ 532	\$ 470	\$ 445	\$ 504	\$ 539	\$ 441	\$ 356	\$ 366	\$ 374	\$ 283	\$ 208
EPS	\$ 2.06	\$ 1.36	\$ 1.60	\$ (1.12)	\$ 2.05	\$ 1.77	\$ 1.55	\$ 1.32	\$ 1.76	\$ 1.84	\$ 1.63	\$ 0.94	\$ 1.21	\$ 1.07	\$ 0.32	\$ (1.34)
Non-GAAP EPS	\$ 2.36	\$ 2.09	\$ 2.10	\$ 1.96	\$ 2.12	\$ 2.19	\$ 1.94	\$ 1.85	\$ 2.10	\$ 2.26	\$ 1.87	\$ 1.51	\$ 1.56	\$ 1.60	\$ 1.21	\$ 0.79
Diluted Shares Outstanding	252	246	245	236	242	243	242	241	240	238	236	235	234	234	234	261
Non-GAAP Diluted Shares Outstanding ⁶	252	246	245	243	242	243	242	241	240	238	236	235	234	234	234	263
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																
Net income (loss)	\$ 519	\$ 335	\$ 391	\$ (265)	\$ 495	\$ 430	\$ 375	\$ 317	\$ 423	\$ 438	\$ 384	\$ 220	\$ 283	\$ 251	\$ 74	\$ (351)
Income tax expense (benefit)	59	133	15	35	37	37	31	30	37	20	28	27	31	(7)	6	(119)
Pre-tax income	\$ 578	\$ 468	\$ 406	\$ (230)	\$ 532	\$ 467	\$ 406	\$ 347	\$ 460	\$ 458	\$ 412	\$ 247	\$ 314	\$ 244	\$ 80	\$ (470)
Income tax provision as a percentage of pre-tax income	10%	28%	4%	-15%	7%	8%	8%	9%	8%	4%	7%	11%	10%	-3%	8%	25%
Non-GAAP Net Income	\$ 594	\$ 513	\$ 514	\$ 477	\$ 514	\$ 532	\$ 470	\$ 445	\$ 504	\$ 539	\$ 441	\$ 356	\$ 366	\$ 374	\$ 283	\$ 208
Add:																
Income tax expense (benefit)	59	133	15	35	37	37	31	30	37	20	28	27	31	(7)	6	(119)
Income tax adjustments	—	(88)	—	—	—	—	—	—	—	—	—	—	—	28	20	95
Non-GAAP income tax expense (benefit)	59	45	15	35	37	37	31	30	37	20	28	27	31	21	26	(24)
Non-GAAP pre-tax income	\$ 653	\$ 558	\$ 529	\$ 512	\$ 551	\$ 569	\$ 501	\$ 475	\$ 541	\$ 559	\$ 469	\$ 383	\$ 397	\$ 395	\$ 309	\$ 184
Non-GAAP income tax provision as a percentage of pre-tax income	9%	8%	3%	7%	7%	7%	6%	6%	7%	4%	6%	7%	8%	5%	8%	-13%

Non-GAAP Financial Measures

This Quarterly Fact Sheet 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 the 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.

EBITDA: EBITDA is a non-GAAP financial measure defined as net income before interest, income tax expense, depreciation and amortization. We include information concerning EBITDA because we believe it is a useful measure to evaluate our operating performance. As a measure of our operating performance, we believe EBITDA provides a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies.

Economic Profit: Economic profit (EP) is a non-GAAP financial measure defined as net operating profit after taxes less the value of invested capital multiplied by the weighted average cost of capital, where net operating profit after taxes is defined as income from operations minus tax expense and invested capital is defined as the sum of current debt, long-term debt and equity. Management uses EP to evaluate business performance and allocate resources, and it is a component in determining management's incentive compensation. Management believes EP provides additional perspective to investors about financial returns generated by the business and represents profit generated over and above the cost of capital used by the business to generate that profit.

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 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.

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.

Convertible debt: 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 or the ongoing results of our business.

Charges related to cost saving initiatives: In connection with the transformation of our business, beginning in the 2nd quarter of fiscal 2016, 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 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, 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, 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.

Formulas

Share = Units (HDD) / TAM

ASP = Revenue / Units (HDD)

Free Cash Flow = Cash Flow from Operations – Capital Expenditures, net

EBITDA = Net Income (Loss) + Interest and Other Expense, net + Income Tax Expense + Depreciation and Amortization

Days Sales Outstanding (DSO) = Accounts Receivable / (Revenue / 91 days)

Days Inventory Outstanding (DIO) = Inventory / (Cost of Revenue / 91 days)

Days Payables Outstanding (DPO) = Accounts Payable / (Cost of Revenue / 91 days)

Cash Conversion Cycle = DSO + DIO – DPO

Inventory Turns = 364 days / DIO

R4Q Economic Profit = R4Q Net Operating Profit After Taxes – (Invested Capital x WACC)

- Invested Capital = Short-term debt + Current portion of long-term debt + Long-term debt + Total shareholders' equity
- WACC = 11%

R4Q ROIC = R4Q (Net Income (Loss) + Interest Expense) / R4Q Average (Short-term debt + Current portion of long-term debt + Long-term debt + Total shareholders' equity)

R4Q ROA = R4Q Net Income (Loss) / R4Q Average Total Assets

Footnotes

1. ASP, Revenue by Channel and Revenue by Geography exclude external sales of media/substrates.
2. HDD Unit volume excludes WD TV Media Players without hard drives, WD Livewire, SSD and media.
3. Worldwide Headcount excludes temporary and contracted employees.
4. Consumer Electronics includes gaming.
5. PC includes shipments to distributors, second/third tier external HDD manufacturers, and white box manufacturers.
6. 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.
7. WACC of 11% is an internal assumption.
8. Q2 FY12 includes charges related to the flooding. Q4 FY13 includes charges related to the arbitration award.
9. HDD TAM is preliminary and based on internal information.
10. Certain FY14 amounts have been reclassified from gross profit, R&D and SG&A to the other charges line within operating expenses to conform to the annual presentation of FY14 in Part II, Item 8, Note18 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K.
11. Q1 FY15 cash conversion cycle calculated using 98 days due to a 14 week quarter. Q1 FY15 inventory turns calculated using 371 days due to a 53 week year.
12. Non-PC revenue percentage includes consumer electronics, enterprise applications, branded products, and SSD.
13. Excludes Non-Memory Products.
14. Client Devices is comprised of notebook and desktop HDD, consumer electronics HDD, client SSD, embedded, wafer sales and licensing and royalties. Client Solutions is comprised of branded HDD, branded flash, removables and licensing and royalties. Datacenter Devices and Solutions is comprised of enterprise HDD, enterprise SSD, data center software, data center solutions and licensing and royalties.
15. Capital expenditures, net is comprised of purchases of property, plant and equipment, net and note receivable with flash ventures, net.