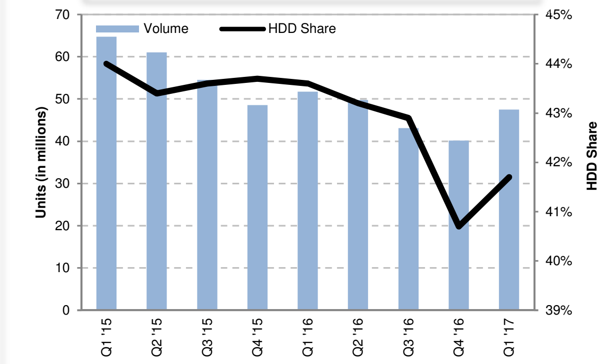
Non-GAAP Financial Measures Update

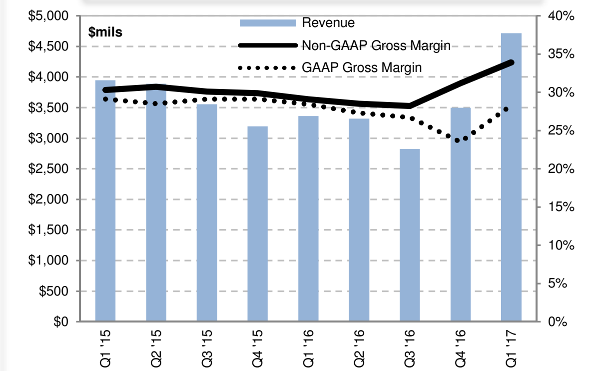
Beginning with the financial guidance provided for the Company's second fiscal quarter 2017, the Company has revised the presentation of its non-GAAP financial results to also exclude stock-based compensation expense. Because of the variety of equity awards used by companies, the varying methodologies 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 our business over time and compare it against our peers, a majority of whom also exclude stock-based compensation expense from their non-GAAP results. To facilitate a comparison to the Company's non-GAAP results in prior periods, the prior period non-GAAP results presented herein have been recast to reflect the new methodology.

Amounts in millions, except per share amounts, ASP, percentages[1]		Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17[8]	Q2 FY17[13,14]
	Revenue	$3,943	$3,888	$3,550	$3,191	$3,360	$3,317	$2,822	$3,495	$4,714	Approximately $4.75 billion
	Gross Profit	$1,149	$1,110	$1,032	$930	$955	$906	$753	$821	$1,335	
	Gross Margin	29.1%	28.5%	29.1%	29.1%	28.4%	27.3%	26.7%	23.5%	28.3%	
	R&D	$437	$426	$402	$381	$385	$389	$359	$494	$639	
	SG&A	220	164	199	190	192	207	166	400	396	
	Other	23	54	10	104	56	59	140	122	68	
	Total Operating Expenses	$680	$644	$611	$675	$633	$655	$665	$1,016	$1,103	
	Operating Income (Loss)	$469	$466	$421	$255	$322	$251	$88	$(195)	$232	
	Interest & Other Expense, net	$9	$8	$9	$8	$8	$7	$8	$290	$503	
	Income Tax Expense (Benefit)	$37	$20	$28	$27	$31	$(7)	$6	$(119)	$95	
	Income tax provision as a percentage of pre-tax income	8%	4%	7%	11%	10%	-3%	8%	25%	-35%	
	Net Income (Loss)	$423	$438	$384	$220	$283	$251	$74	$(366)	$(366)	
	EPS	$1.76	$1.84	$1.63	$0.94	$1.21	$1.07	$0.32	$(1.40)	$(1.28)	
	Diluted Shares Outstanding	240	238	236	235	234	234	234	261	285	
Non-GAAP Results	Gross Profit	$1,193	$1,195	$1,070	$953	$977	$945	$796	$1,092	$1,599	
	Gross Margin	30.3%	30.7%	30.1%	29.9%	29.1%	28.5%	28.2%	31.2%	33.9%	Approximately 36%
	Operating Expenses	$600	$579	$564	$527	$531	$518	$449	$641	$863	Approximately $805
	Operating Income	$593	$616	$506	$426	$446	$427	$347	$451	$736	
	Interest & Other Expense, net	$9	$8	$9	$8	$8	$7	$8	$209	$227	Approximately $205
	Income Tax Expense (Benefit)	$35	$17	$26	$26	$26	$17	$22	$ (27)	$61	
	Income tax provision as a percentage of pre-tax income	6%	3%	5%	6%	6%	4%	6%	-11%	12%	Approximately 13%
	Net Income	$549	$591	$471	$392	$412	$403	$317	$269	$448	
	EPS	$2.29	$2.48	$2.00	$1.67	$1.76	$1.72	$1.35	$1.02	$1.54	$2.10 to $2.15
	Diluted Shares Outstanding[6]	240	238	236	235	234	234	234	263	290	Approximately 293
Revenue By Channel	OEM	63%	63%	64%	67%	67%	65%	66%	63%	64%	
	Distributors	24%	23%	23%	21%	21%	21%	22%	19%	17%	
	Retail	13%	14%	13%	12%	12%	14%	12%	18%	19%	
Revenue by Geography	Americas	27%	27%	29%	32%	30%	31%	30%	38%	40%	
	EMEA	21%	24%	21%	21%	21%	23%	23%	19%	16%	
	Asia/ANZ	52%	49%	50%	47%	49%	46%	47%	43%	44%	
Revenue	Client Devices[11]	$2,255	$2,089	$1,820	$1,546	$1,670	$1,581	$1,370	$1,584	$2,374	
	Client Solutions[11]	504	528	452	366	399	459	346	666	976	
	Data Center Devices & Solutions[11]	1,184	1,271	1,278	1,279	1,291	1,277	1,106	1,245	1,364	
	Total Revenue	$3,943	$3,888	$3,550	$3,191	$3,360	$3,317	$2,822	$3,495	$4,714	
Exabytes Shipped	Client Devices	39.1	37.6	34.3	30.5	34.3	35.3	31.7	32.0	39.2	
	Client Solutions	9.8	11.0	9.6	8.2	9.2	11.3	8.5	9.5	12.2	
	Data Center Devices & Solutions	15.9	17.8	17.4	17.5	20.0	22.5	22.8	24.6	28.6	
	Total Exabytes Shipped[10]	64.8	66.4	61.3	56.2	63.5	69.1	63.0	66.1	80.0	
	R4Q EB Shipped	228.7	240.0	247.7	248.7	247.4	250.1	251.8	261.7	278.2	
	HDD TAM	147.3	140.8	125.0	111.0	118.7	115.1	100.5	98.5	114.0	
	HDD Share	44.0%	43.4%	43.6%	43.7%	43.6%	43.2%	42.9%	40.7%	41.7%	
	HDD Units[2]	64.7	61.0	54.5	48.5	51.7	49.7	43.1	40.1	47.5	
	HDD ASP	$58	$60	$61	$60	$60	$61	$60	$63	$61	
HDD PC Units[5]	HDD Notebook Units	23.396	21.178	18.785	15.513	15.804	15.318	13.577	11.449	14.607	
	HDD Desktop Units	16.320	15.375	13.523	11.601	11.683	12.458	10.681	7.924	8.998	
HDD Non-PC Units	HDD Consumer Electronics Units[4]	10.485	9.295	8.610	9.056	11.484	8.461	7.318	10.038	12.295	
	HDD Branded Units	6.780	7.156	6.090	5.151	5.575	6.443	5.157	4.709	5.158	
	HDD Enterprise Units	7.763	8.041	7.519	7.199	7.185	7.008	6.390	5.994	6.465	
	Total HDD Units	64.744	61.045	54.527	48.520	51.731	49.688	43.123	40.114	47.523	

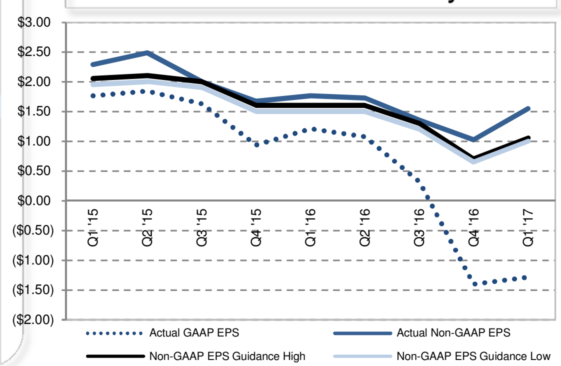
Volume and HDD Share[2]



Revenue, GAAP and Non-GAAP Gross Margin



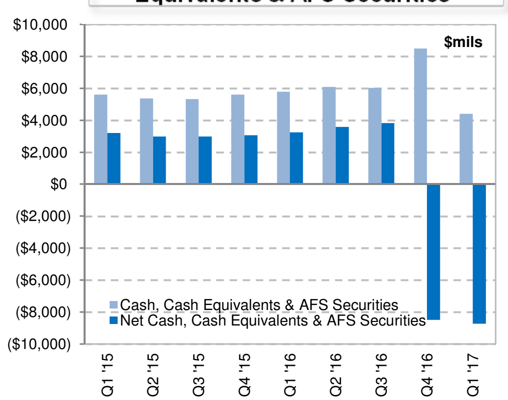
GAAP & Non-GAAP EPS Analysis



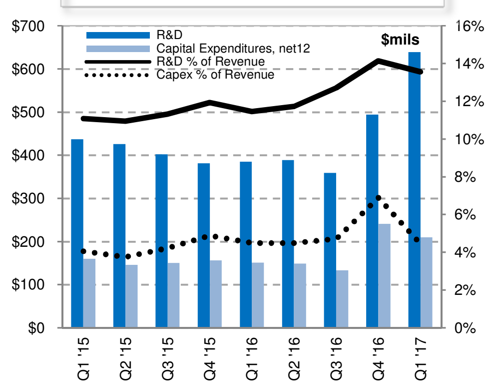
Note: Refer to "Non-GAAP Financial Measures" for information about non-GAAP financial measures included in this quarterly fact sheet.

Balance sheet, cash flows, earnings, dividends and share repurchase amounts in millions	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17
Cash and Cash Equivalents	$5,159	$4,902	$4,812	$5,024	$5,081	$5,363	$5,887	$8,151	$4,077
Available-for-Sale (AFS) Securities	454	465	523	590	704	732	146	345	335
Debt	(2,406)	(2,375)	(2,344)	(2,556)	(2,536)	(2,505)	(2,203)	(16,994)	(13,133)
Net Cash, Cash Equivalents & AFS Securities	$3,207	$2,992	$2,991	$3,058	$3,249	$3,590	$3,830	$ (8,498)	$ (8,721)
Cash Flow From Operations	$827	$243	$684	$488	$545	$598	$485	$355	$440
Free Cash Flow	$667	$97	$534	$332	$394	$449	$352	$114	$230
Capital Expenditures, net[12]	$160	$146	$150	$156	$151	$149	$133	$241	$210
Depreciation and Amortization	$289	$290	$285	$250	$236	$252	$246	$420	$508
EBITDA	$758	$756	$706	$505	$558	$503	$334	$225	$740
Accounts Receivable, Net	$1,915	$1,880	$1,696	$1,532	$1,616	$1,650	$1,254	$1,461	$2,023
Inventory Raw Materials	$178	$154	$173	$168	$135	$130	$133	$569	$610
Work in Process	509	510	498	500	507	474	440	589	680
Finished Goods	585	618	651	700	618	634	654	971	819
Total Inventory	$1,272	$1,282	$1,322	$1,368	$1,260	$1,238	$1,227	$2,129	$2,109
Property, Plant and Equipment, Net	$3,202	$3,099	$3,051	$2,965	$2,890	$2,801	$2,687	$3,503	$3,359
Accounts Payable	$2,016	$2,071	$2,020	$1,881	$1,799	$1,806	$1,571	$1,888	$1,946
Accounts Payable to Related Parties	-	-	-	-	-	-	-	$168	$190
Days Sales Outstanding[9]	48	44	44	44	44	45	40	38	39
Days Inventory Outstanding[9]	45	42	48	55	48	47	54	72	57
Days Payables Outstanding[9]	71	68	73	76	68	68	69	70	58
Cash Conversion Cycle[9]	22	18	19	23	24	24	25	40	38
Inventory Turns[9]	8	9	8	7	8	8	7	5	6
Dividends Paid	$94	$94	$93	$116	$115	$116	$116	$116	$142
Shares Repurchased	2.2	3.2	2.2	2.0	0.7	-	-	-	-
Shares Repurchased	$223	$309	$240	$198	$60	-	-	-	-
Remaining Amount Authorized	$931	$622	$2,382	$2,184	$2,124	$2,124	$2,124	$2,124	$2,124
R4Q Economic Profit	$332	$328	$320	$204	$52	$ (157)	$ (440)	$ (2,540)	$ (2,229)
R4Q ROIC	14.2%	14.1%	14.1%	13.1%	11.7%	10.0%	7.4%	3.5%	0.7%
R4Q ROA	10.0%	10.1%	10.2%	9.6%	8.7%	7.5%	5.4%	1.2%	-1.8%
Worldwide Headcount[3]	83,277	83,993	80,767	76,449	76,052	74,891	67,884	72,878	72,273

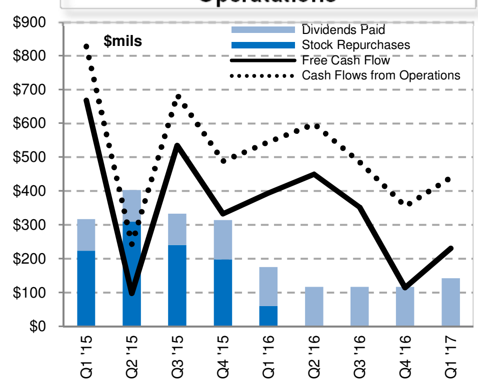
Gross vs. Net Cash, Cash Equivalents & AFS Securities



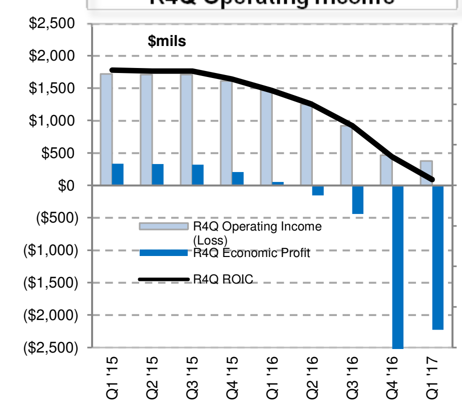
R&D and Capital Expenditures



Free Cash Flow & Cash Flow from Operatations



R4Q ROIC, R4Q Economic Profit & R4Q Operating Income



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	Balance Outstanding as of 9/30/16[A]	Applicable Rates[B]
Revolver drawn [C]	L+200	5 years		$0	2.520%
Term Loan A (floor of 0bps)	L+200	5 years	April 29, 2021	$4,125	2.520%
Term Loan B-1 Dollar (floor of 75bps)	L+375	7 years	April 29, 2023	$2,993	4.500%
Term Loan B-1 Euro (floor of 75 bps)[D]	E+325	7 years	April 29, 2023	$990	4.000%
Sr. Secured Notes Due 2023[E]	7.375%	7 years	April 1, 2023	$1,875	7.375%
Sr. Unsecured Notes Due 2024[E]	10.500%	8 years	April 1, 2024	$3,350	10.500%
Total				$13,333	5.762%[F]

[A] Excluding Original Issue Discount and fees

[B] L = 1 Month LIBOR, E = 1 Month EURIBOR as of 9/30/2016

[B] Based on current leverage ratios

[C] Revolver capacity: $1,000M as of 9/30/2016

[D] Original Issued Principal in EURO denominated debt of Euro 885M and current balance of Euro 883M as of 9/30/16, converted at Fiscal Month EUR/USD balance sheet rate of 1.121202

[E] Notes are callable in 3 years (starting April 1, 2019)

[F] Weighted average interest rate as of September 30, 2016

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

Estimated Effective Tax Ranges (Non-GAAP)

FY17 : 13% - 17%
FY18 – FY23 : 7% - 12%
Beyond FY23 : 7% - 10%

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
Reconciliation of Cash Flows from Operations to Free Cash Flow									
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)
Activity Related to Flash Ventures, net	-	-	-	-	-	-	-	(90)	(27)
Free Cash Flow	$667	$97	$534	$332	$394	$449	$352	$114	$230
Reconciliation of Net Income to EBITDA									
Net Income (Loss)	$423	$438	$384	$220	$283	$251	$74	$ (366)	$ (366)
Interest and Other Expense, net	9	8	9	8	8	7	8	290	503
Income Tax Expense (Benefit)	37	20	28	27	31	(7)	6	(119)	95
Depreciation and Amortization	289	290	285	250	236	252	246	420	508
EBITDA	$758	$756	$706	$505	$558	$503	$334	$225	$740
Reconciliation of Operating Income (Loss) to R4Q Economic Profit									
Operating Income (Loss)	$469	$466	$421	$255	$322	$251	$88	$ (195)	$232
Income Tax (Expense) Benefit	(37)	(20)	(28)	(27)	(31)	7	(6)	119	(95)
Net Operating Profit After Taxes	432	446	393	228	291	258	82	(76)	137
R4Q Net Operating Profit After Taxes	1,583	1,588	1,593	1,499	1,358	1,170	859	555	401
Invested Capital x WACC	(1,251)	(1,260)	(1,273)	(1,295)	(1,306)	(1,327)	(1,299)	(3,095)	(2,630)
R4Q Economic Profit	$332	$328	$320	$204	$52	$(157)	$(440)	$(2,540)	$(2,229)
Reconciliation of Gross Margin to Non-GAAP Gross Margin & Gross Profit to Non-GAAP Gross Profit									
Gross Profit	$1,149	$1,110	$1,032	$930	$955	$906	$753	$821	$1,335
Amortization of acquired intangible assets	39	38	37	20	17	16	16	114	202
Stock-based compensation	4	5	4	4	5	4	4	8	13
Acquisition-related charges	-	-	-	-	-	-	-	122	17
Charges related to cost saving initiatives	-	-	-	-	-	22	25	27	30
Other charges	1	42	(3)	(1)	-	(3)	(2)	-	2
Non-GAAP Gross Profit	$1,193	$1,195	$1,070	$953	$977	$945	$796	$1,092	$1,599
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	30.3%	30.7%	30.1%	29.9%	29.1%	28.5%	28.2%	31.2%	33.9%
Reconciliation of Operating Expenses to Non-GAAP Operating Expenses									
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)
Stock-based compensation	(35)	(35)	(33)	(38)	(36)	(31)	(32)	(60)	(86)
Acquisition-related charges	-	-	(3)	-	-	(27)	(16)	(116)	(10)
Charges related to cost saving initiatives	-	-	-	-	-	(15)	(24)	(30)	(33)
Employee termination, asset impairment and other charges	(9)	(53)	(10)	(104)	(56)	(27)	(140)	(122)	(68)
Charges related to arbitration award	(14)	(1)	-	-	-	(32)	-	-	-
Charges and insurance recoveries related to flooding, net	-	37	-	-	-	-	-	-	-
Other charges	(15)	(6)	6	2	(2)	3	2	26	(3)
Non-GAAP Operating Expenses	$600	$579	$564	$527	$531	$518	$449	$641	$863
Reconciliation of Operating Income to Non-GAAP Operating Income									
Operating Income (Loss)	$469	$466	$421	$255	$322	$251	$88	$ (195)	$232
Amortization of acquired intangible assets	46	45	44	28	25	24	22	187	242
Stock-based compensation	39	40	37	42	41	35	36	68	99
Acquisition-related charges	-	-	3	-	-	27	16	238	27
Charges related to cost saving initiatives	-	-	-	-	-	37	49	57	63
Employee termination, asset impairment and other charges	9	53	10	104	56	27	140	122	68
Charges related to arbitration award	14	1	-	-	-	32	-	-	-
Charges and insurance recoveries related to flooding, net	-	(37)	-	-	-	-	-	-	-
Other charges	16	48	(9)	(3)	2	(6)	(4)	(26)	5
Non-GAAP Operating Income	$593	$616	$506	$426	$446	$427	$347	$451	$736
Reconciliation of Interest and other expense, net to Non-GAAP Interest and other expense, net									
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
Reconciliation of Net Income (Loss) to Non-GAAP Net Income									
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
Stock-based compensation	39	40	37	42	41	35	36	68	99
Acquisition-related charges	-	-	3	-	-	27	16	238	27
Charges related to cost saving initiatives	-	-	-	-	-	37	49	57	63
Employee termination, asset impairment and other charges	9	53	10	104	56	27	140	122	68
Charges related to arbitration award	14	1	-	-	-	32	-	-	-
Charges and insurance recoveries related to flooding, net	-	(37)	-	-	-	-	-	-	-
Convertible debt activity, net	-	-	-	-	-	-	-	58	5
Debt extinguishment costs	-	-	-	-	-	-	-	18	267
Other charges	16	48	(9)	(3)	2	(6)	(4)	(21)	9
Income tax adjustments	2	3	2	1	5	(24)	(16)	(92)	34
Non-GAAP Net Income	$549	$591	$471	$392	$412	$403	$317	$269	$448
EPS	$1.76	$1.84	$1.63	$0.94	$1.21	$1.07	$0.32	$(1.40)	$(1.28)
Non-GAAP EPS	$2.29	$2.48	$2.00	$1.67	$1.76	$1.72	$1.35	$1.02	$1.54
Diluted Shares Outstanding	240	238	236	235	234	234	234	261	285
Non-GAAP Diluted Shares Outstanding[6]	240	238	236	235	234	234	234	263	290
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)	$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	$549	$591	$471	$392	$412	$403	$317	$269	$448
Add:									
Income tax expense (benefit)	37	20	28	27	31	(7)	6	(119)	95
Income tax adjustments	(2)	(3)	(2)	(1)	(5)	24	16	92	(34)
Non-GAAP income tax expense (benefit)	35	17	26	26	26	17	22	(27)	61
Non-GAAP pre-tax income	$584	$608	$497	$418	$438	$420	$339	$242	$509
Non-GAAP income tax provision as a percentage of non-GAAP pre-tax income	6%	3%	5%	6%	6%	4%	6%	-11%	12%

Non-GAAP Financial Measures

This document 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.

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 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.

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 our control, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand and assess the underlying performance of our business over time and compare it against our peers, a majority of whom also exclude stock-based compensation expense from their non-GAAP results.

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. In addition, we have a liability for stock appreciation rights ("SARs") related to our acquisition of HGST. These SARs are fully vested, and their fair values are now solely subject to market price fluctuations. As such, we have excluded the mark-to-market impact of this liability from our non-GAAP operating results as it is not indicative of ongoing operations.

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[7] = 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 calculation.
8. HDD TAM is preliminary and based on internal information.
9. Q1 FY15 cash conversion cycle calculated using 98 days due to a 14 week quarter. FY15 inventory turns calculated using 371 days due to a 53 week year.
10. Excludes Non-Memory Products.
11. 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. Data Center Devices and Solutions is comprised of enterprise HDD, enterprise SSD, data center software, data center solutions and licensing and royalties.
12. Capital expenditures, net is comprised of purchases of property, plant and equipment, net and note receivable with flash ventures, net.
13. Financial guidance for the second fiscal quarter ending December 30, 2016 has been updated as of December 6, 2016. Our non-GAAP guidance excludes the amortization of acquired intangible assets and stock-based compensation expense consisting of $214 million in gross profit, or 4.5% of gross margin, and $130 million in operating expenses, totaling $344 million in net income, or $1.17 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, reconciliations of non-GAAP gross margin, non-GAAP operating expenses, non-GAAP interest and other expense, non-GAAP tax rate and non-GAAP diluted earnings per share to the most directly comparable GAAP financial measures (gross margin, operating expenses, interest and other expense, tax rate and diluted earnings per share, respectively) are not available without unreasonable effort.
14. This document 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-Q filed with the SEC on November 8, 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.