

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

WESTERN DIGITAL CORP

CIK: **106040** | IRS No.: **330956711** | State of Incorp.: **DE** | Fiscal Year End: **0629**
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Mailing Address
3355 MICHELSON DRIVE
SUITE 100
IRVINE CA 92612

Business Address
3355 MICHELSON DRIVE
SUITE 100
IRVINE CA 92612
9499325000

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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): January 23, 2013

Western Digital Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware
**(State or Other Jurisdiction
of Incorporation or Organization)**

001-08703
**(Commission
File Number)**

33-0956711
**(I.R.S. 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:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 240.425)
 - 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 January 23, 2013, Western Digital Corporation (“Western Digital”) announced financial results for the second fiscal quarter ended December 28, 2012. 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 Investor Information Summary for the second quarter ended December 28, 2012 is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

In Western Digital’s press release attached as Exhibit 99.1 hereto, Western Digital reports certain financial information, including net income and earnings per share on both a GAAP and a non-GAAP basis for the second fiscal quarter ended December 28, 2012. These non-GAAP measures exclude a tax-related matter, amortization of intangibles related to the HGST acquisition and certain employee termination benefits and other charges. Because management believes these expenses may not be indicative of ongoing operations, management believes that the non-GAAP measures presented in the press release are useful to investors as an alternative method for measuring Western Digital’s operating performance and comparing it against prior periods’ performance.

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 (the “Securities Act”), 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 January 23, 2013 announcing financial results for the second fiscal quarter ended December 28, 2012.

99.2 Second Quarter Fiscal Year 2013 Western Digital Corporation Investor Information Summary.

Company contacts:

Bob Blair

Western Digital Investor Relations

949.672.7834

robert.blair@wdc.com

Steve Shattuck

Western Digital Public Relations

949.672.7817

steve.shattuck@wdc.com

FOR IMMEDIATE RELEASE:

**WESTERN DIGITAL® ANNOUNCES Q2 REVENUE OF \$3.8 BILLION AND
NON-GAAP NET INCOME OF \$513 MILLION, OR \$2.09 PER SHARE¹**

IRVINE, Calif. – Jan. 23, 2013 – Western Digital® Corp. (NASDAQ: WDC) today reported revenue of \$3.8 billion, hard-drive shipments of 59.2 million and net income of \$335 million, or \$1.36 per share for its second fiscal quarter ended Dec. 28, 2012. On a non-GAAP basis, net income was \$513 million or \$2.09 per share.¹ In the year-ago quarter, the company reported revenue of \$2.0 billion, net income of \$145 million, or \$0.61 per share, and shipped 28.5 million hard drives. Non-GAAP net income in the year-ago quarter was \$358 million, or \$1.51 per share.²

The company generated \$772 million in cash from operations during the December quarter, ending with total cash and cash equivalents of \$3.8 billion. During the quarter, the company utilized \$146 million to buy back 4.2 million shares of common stock. On Dec. 3, the company declared a \$0.25 per common share dividend, which was paid on Dec. 26.

“We are pleased with our December quarter results, reflecting outstanding execution and value creation by our HGST and WD® teams,” said Steve Milligan, president and chief executive officer. “In an environment marked by continued macroeconomic uncertainty, soft PC demand and inventory rebalancing by our customers, we continue to manage our business by focusing on those variables that we control, allowing us to generate better than expected revenue and profitability and strong cash generation.”

The investment community conference call to discuss these results will be broadcast live over the Internet today at 3 p.m. Pacific/6 p.m. Eastern. The live and archived conference call webcast can be accessed online at investor.wdc.com. The telephone replay number is 888-568-0860 in the U.S. or +1-402-998-0245 for international callers.

About Western Digital

Western Digital Corp. (NASDAQ: WDC), Irvine, Calif., is a global provider of products and services that empower people to create, manage, experience and preserve digital content. Its subsidiaries design and manufacture storage devices, networking equipment and home entertainment products under the WD[®], HGST and G-Technology brands. Visit the Investor section of the company's website (www.westerndigital.com) to access a variety of financial and investor information.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements concerning the company's revenue, profitability and cash generation. 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, including the impact of continued uncertainty and volatility in global economic conditions; supply and demand conditions in the hard drive industry; uncertainties concerning the availability and cost of commodity materials and specialized product components; actions by competitors; unexpected advances in competing technologies; uncertainties related to the development and introduction of products based on new technologies and expansion into new data storage markets; business conditions and growth in the various hard drive markets; pricing trends and fluctuations in average selling prices; and other risks and uncertainties listed in the company's filings with the Securities and Exchange Commission (the "SEC"), including the company's recent Form 10-Q filed with the SEC on Nov. 2, 2012, to which your attention is directed. Readers are cautioned not to 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 subsequent events or circumstances.

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Western Digital, WD and the WD logo are registered trademarks in the U.S. and other countries. Other marks may be mentioned herein that belong to other companies.

- ¹ Non-GAAP net income for the second quarter fiscal 2013 consists of GAAP net income of \$335 million plus \$88 million for a tax-related matter, \$49 million of amortization of intangibles related to the acquisition of HGST and \$41 million related to employee termination benefits and other charges. Non-GAAP earnings per share of \$2.09 for the second quarter is calculated by using the same 246 million diluted shares as is used for GAAP earnings per share. The tax effect of the employee termination benefits and other charges was not material.
- ² Non-GAAP net income for the second quarter fiscal 2012 consists of GAAP net income of \$145 million plus \$199 million for charges and expenses related to the flooding and \$14 million of acquisition-related expenses. Non-GAAP earnings per share of \$1.51 for the second quarter is calculated by using the same 237 million diluted shares as is used for GAAP earnings per share.

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions; unaudited)

	<u>Dec. 28,</u> <u>2012</u>	<u>Jun. 29,</u> <u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,816	\$3,208
Accounts receivable, net	1,732	2,364
Inventories	1,204	1,210
Other	423	359
Total current assets	<u>7,175</u>	<u>7,141</u>
Property, plant and equipment, net	3,938	4,067
Goodwill	1,907	1,975
Other intangible assets, net	709	799
Other assets	200	224
Total assets	<u>\$13,929</u>	<u>\$14,206</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,185	\$2,773
Accrued expenses	722	858
Accrued warranty	131	171
Current portion of long-term debt	288	230
Total current liabilities	<u>3,326</u>	<u>4,032</u>
Long-term debt	1,840	1,955
Other liabilities	516	550
Total liabilities	<u>5,682</u>	<u>6,537</u>
Total shareholders' equity	<u>8,247</u>	<u>7,669</u>
Total liabilities and shareholders' equity	<u>\$13,929</u>	<u>\$14,206</u>

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)
(unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Dec. 28,</u> <u>2012</u>	<u>Dec. 30,</u> <u>2011</u>	<u>Dec. 28,</u> <u>2012</u>	<u>Dec. 30,</u> <u>2011</u>
Revenue, net	\$3,824	\$1,995	\$7,859	\$4,689
Cost of revenue	<u>2,765</u>	<u>1,347</u>	<u>5,607</u>	<u>3,500</u>
Gross profit	<u>1,059</u>	<u>648</u>	<u>2,252</u>	<u>1,189</u>
Operating expenses:				
Research and development	378	191	774	384
Selling, general and administrative	162	96	341	185
Employee termination benefits and other charges	41	–	67	–
Charges related to flooding	–	199	–	199
Total operating expenses	<u>581</u>	<u>486</u>	<u>1,182</u>	<u>768</u>
Operating income	478	162	1,070	421
Net interest and other	<u>(10)</u>	<u>(2)</u>	<u>(24)</u>	<u>(3)</u>
Income before income taxes	468	160	1,046	418
Income tax provision	<u>133</u>	<u>15</u>	<u>192</u>	<u>34</u>
Net income	<u>\$335</u>	<u>\$145</u>	<u>\$854</u>	<u>\$384</u>
Income per common share:				
Basic	<u>\$1.38</u>	<u>\$0.62</u>	<u>\$3.50</u>	<u>\$1.64</u>
Diluted	<u>\$1.36</u>	<u>\$0.61</u>	<u>\$3.43</u>	<u>\$1.62</u>
Weighted average shares outstanding:				
Basic	<u>242</u>	<u>234</u>	<u>244</u>	<u>234</u>
Diluted	<u>246</u>	<u>237</u>	<u>249</u>	<u>237</u>

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

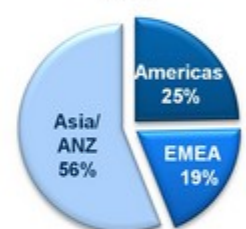
	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Dec. 28,</u> <u>2012</u>	<u>Dec. 30,</u> <u>2011</u>	<u>Dec. 28,</u> <u>2012</u>	<u>Dec. 30,</u> <u>2011</u>
Cash flows from operating activities				
Net income	\$335	\$145	\$854	\$384
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	309	140	622	298
Stock-based compensation	32	24	71	41
Deferred income taxes	80	9	68	18
Non-cash portion of employee termination benefits and other charges	15	-	15	-
Non-cash portion of charges related to flooding	-	109	-	109
Changes in operating assets and liabilities, net	1	(49)	78	(120)
Net cash provided by operating activities	<u>772</u>	<u>378</u>	<u>1,708</u>	<u>730</u>
Cash flows from investing activities				
Purchases of property, plant and equipment	(246)	(120)	(628)	(253)
Acquisitions, net of cash acquired	(18)	-	(27)	-
Purchase of investment	(15)	-	(15)	-
Net cash used in investing activities	<u>(279)</u>	<u>(120)</u>	<u>(670)</u>	<u>(253)</u>
Cash flows from financing activities				
Employee stock plans, net	53	22	113	20
Repurchases of common stock	(146)	-	(364)	-
Dividends to shareholders	(121)	-	(121)	-
Repayment of debt	-	(31)	(58)	(63)
Net cash used in financing activities	<u>(214)</u>	<u>(9)</u>	<u>(430)</u>	<u>(43)</u>
Net increase in cash and cash equivalents	279	249	608	434
Cash and cash equivalents, beginning of period	<u>3,537</u>	<u>3,675</u>	<u>3,208</u>	<u>3,490</u>
Cash and cash equivalents, end of period	<u>\$3,816</u>	<u>\$3,924</u>	<u>\$3,816</u>	<u>\$3,924</u>

Amounts in millions, except per share amounts, ASP, percentages																
	Q3 FY09	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13	Q2 FY13
TAM	111.4	135.4	152.4	160.4	163.3	156.2	164.0	167.5	159.5	165.8	176.3	119.1	146.4	156.7	139.1	135.7
Share	28.3%	29.5%	28.9%	30.9%	31.3%	31.8%	30.9%	31.2%	31.2%	32.5%	32.8%	23.9%	30.2%	45.3%	44.9%	43.7%
Units (HDD)	31.6	40.0	44.1	49.5	51.1	49.7	50.7	52.2	49.8	53.8	57.8	28.5	44.2	71.0	62.5	59.2
ASP (HDD)	\$50	\$48	\$49	\$52	\$51	\$47	\$46	\$47	\$45	\$44	\$46	\$69	\$68	\$65	\$62	\$62
Revenue	\$1,592	\$1,928	\$2,208	\$2,619	\$2,641	\$2,382	\$2,396	\$2,475	\$2,252	\$2,403	\$2,694	\$1,995	\$3,035	\$4,754	\$4,035	\$3,824
Gross Profit	\$253	\$370	\$514	\$687	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$977	\$1,472	\$1,193	\$1,059
Gross Margin	15.9%	19.2%	23.3%	26.2%	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	32.2%	31.0%	29.6%	27.7%
R&D	\$125	\$132	\$142	\$154	\$160	\$154	\$167	\$169	\$179	\$188	\$193	\$191	\$205	\$406	\$396	\$378
SG&A	\$49	\$52	\$53	\$60	\$64	\$61	\$59	\$66	\$63	\$77	\$71	\$85	\$122	\$178	\$179	\$162
Other	\$18	(\$22)	\$-	\$-	\$-	\$27	\$-	\$-	\$10	\$32	\$18	\$230	\$88	\$80	\$26	\$41
Total Operating Expenses	\$192	\$161	\$195	\$214	\$224	\$242	\$226	\$235	\$252	\$297	\$282	\$486	\$435	\$664	\$601	\$581
Operating Income	\$61	\$209	\$319	\$473	\$441	\$293	\$211	\$240	\$158	\$172	\$259	\$162	\$542	\$808	\$592	\$478
Net Income	\$50	\$196	\$288	\$429	\$400	\$265	\$197	\$225	\$146	\$158	\$239	\$145	\$483	\$745	\$519	\$335
EPS	\$0.22	\$0.86	\$1.25	\$1.85	\$1.71	\$1.13	\$0.84	\$0.96	\$0.62	\$0.67	\$1.01	\$0.61	\$1.96	\$2.87	\$2.06	\$1.36
Diluted Shares Outstanding	226	227	230	232	234	235	234	235	236	237	237	237	246	260	252	246
Non-GAAP Results																
Gross Profit	\$253	\$370	\$514	\$687	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$1,077	\$1,511	\$1,231	\$1,097
Gross Margin	15.9%	19.2%	23.3%	26.2%	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	32.5%	31.8%	30.5%	28.7%
Net Income	\$68	\$173	\$288	\$429	\$400	\$292	\$197	\$225	\$156	\$193	\$260	\$358	\$619	\$872	\$594	\$513
EPS	\$0.30	\$0.76	\$1.25	\$1.85	\$1.71	\$1.24	\$0.84	\$0.96	\$0.66	\$0.81	\$1.10	\$1.51	\$2.52	\$3.35	\$2.36	\$2.09
Top 10 Customers Revenue																
Revenue by Channel	47%	52%	56%	55%	51%	52%	50%	48%	49%	53%	49%	51%	53%	53%	44%	45%
OEM	48%	54%	52%	48%	49%	54%	50%	45%	47%	55%	53%	59%	64%	69%	63%	61%
Distributors	30%	29%	31%	30%	33%	29%	32%	33%	33%	29%	29%	25%	28%	21%	24%	24%
Retail	22%	17%	17%	22%	18%	17%	18%	22%	20%	16%	18%	16%	8%	10%	13%	15%
Revenue by Geography																
Americas	26%	24%	22%	25%	24%	25%	23%	22%	22%	20%	19%	22%	21%	27%	23%	27%
EMEA	28%	22%	22%	25%	24%	21%	23%	25%	24%	20%	22%	21%	18%	18%	18%	23%
Asia/ANZ	46%	54%	56%	50%	52%	54%	54%	53%	54%	60%	59%	57%	61%	55%	59%	50%
Compute Units																
Notebook	7,902	14,670	16,528	17,735	17,072	16,802	16,582	17,385	16,227	16,897	19,622	9,814	18,067	32,773	25,887	21,300
Desktop	14,659	16,349	18,282	19,290	21,461	20,282	20,918	20,411	20,118	22,348	21,588	11,391	15,975	21,211	16,819	17,717
Non-Compute Units																
Consumer Electronics	3,487	3,666	3,064	4,083	4,643	5,306	5,239	4,709	4,765	6,459	7,188	2,352	3,643	4,155	8,019	6,452
Branded	4,512	3,994	4,539	6,219	5,565	5,005	5,678	7,427	6,404	5,672	7,060	3,191	2,926	4,986	5,767	7,139
Enterprise Units	0,573	1,308	1,669	2,170	2,356	2,346	2,319	2,284	2,318	2,463	2,369	1,724	3,616	7,913	5,888	6,633
Total HDD Units	31,563	39,987	44,082	49,497	51,097	49,741	50,736	52,216	49,832	53,809	57,827	28,472	44,227	71,038	62,480	59,241

Revenue by Geography Rolling Four Quarters Ending Q2'10



Revenue by Geography Rolling Four Quarters Ending Q2'13



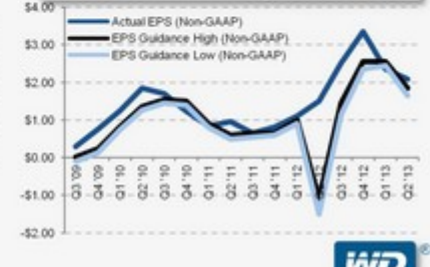
Volume and Market Share



Revenue and Gross Margin



EPS Analysis



Balance sheet, cash flow, earnings and share repurchase amounts in millions	Q3 FY09	Q4 FY09	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13	Q2 FY13
Cash and Cash Equivalents	\$1,579	\$1,794	\$2,056	\$2,435	\$2,826	\$2,734	\$2,858	\$3,110	\$3,230	\$3,490	\$3,675	\$3,924	\$3,377	\$3,208	\$3,537	\$3,816
Debt	\$502	\$482	\$463	\$444	\$425	\$400	\$375	\$350	\$326	\$294	\$263	\$231	\$2,743	\$2,185	\$2,128	\$2,128
Net Cash and Cash Equivalents	\$1,077	\$1,312	\$1,593	\$1,991	\$2,401	\$2,334	\$2,483	\$2,760	\$2,905	\$3,196	\$3,412	\$3,693	\$634	\$1,023	\$1,409	\$1,688
Cash Flow From Operations	\$355	\$349	\$434	\$557	\$588	\$363	\$390	\$505	\$313	\$447	\$352	\$378	\$1,208	\$1,128	\$936	\$772
Free Cash Flow	\$249	\$238	\$258	\$358	\$411	\$178	\$190	\$255	\$138	\$294	\$218	\$258	\$1,069	\$804	\$554	\$526
Capital Expenditures	\$106	\$111	\$176	\$199	\$177	\$185	\$200	\$250	\$175	\$153	\$134	\$120	\$139	\$324	\$382	\$246
Depreciation and Amortization	\$119	\$122	\$121	\$126	\$128	\$134	\$150	\$151	\$151	\$150	\$158	\$140	\$188	\$339	\$313	\$309
EBITDA	\$180	\$331	\$440	\$599	\$569	\$427	\$361	\$391	\$309	\$322	\$417	\$302	\$730	\$1,147	\$905	\$787
Accounts Receivable, Net	\$824	\$926	\$1,131	\$1,365	\$1,257	\$1,256	\$1,325	\$1,250	\$1,171	\$1,206	\$1,356	\$747	\$2,377	\$2,364	\$1,951	\$1,732
Inventory	\$104	\$97	\$96	\$102	\$115	\$159	\$155	\$141	\$151	\$172	\$170	\$191	\$329	\$245	\$237	\$193
Raw Materials	\$152	\$154	\$173	\$212	\$294	\$205	\$266	\$274	\$260	\$263	\$275	\$185	\$667	\$552	\$559	\$581
Work in Process	\$120	\$125	\$120	\$139	\$138	\$146	\$140	\$153	\$163	\$142	\$200	\$90	\$286	\$413	\$508	\$430
Finished Goods	\$385	\$376	\$395	\$453	\$507	\$560	\$561	\$568	\$574	\$577	\$645	\$466	\$1,282	\$1,210	\$1,304	\$1,204
Inventory, Net	\$1,570	\$1,584	\$1,625	\$1,696	\$1,756	\$2,159	\$2,245	\$2,277	\$2,249	\$2,224	\$2,209	\$2,091	\$4,171	\$4,067	\$4,027	\$3,938
Property, Plant and Equipment, Net	\$1,001	\$1,101	\$1,342	\$1,507	\$1,508	\$1,507	\$1,703	\$1,628	\$1,486	\$1,545	\$1,708	\$883	\$2,774	\$2,773	\$2,545	\$2,185
Days Sales Outstanding	47	47	47	47	43	48	50	46	47	46	46	34	71	45	44	41
Days Inventory Outstanding	26	24	21	21	23	28	26	26	28	27	27	31	57	34	42	40
Days Payables Outstanding	68	69	72	71	69	74	79	74	73	73	72	60	123	77	82	72
Cash Conversion Cycle	5	2	(4)	(3)	(3)	2	(3)	(2)	2	-	1	5	5	2	4	9
Inventory Turns	14	15	17	17	16	13	14	14	13	13	13	12	6	11	9	9
Shares Repurchased	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16.4	\$ 5.2	\$ 4.2
Shares Repurchased \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 604	\$ 218	\$ 146
Remaining Amount Authorized	\$466	\$466	\$466	\$466	\$466	\$466	\$416	\$416	\$416	\$416	\$416	\$416	\$416	\$1,312	\$2,594	\$2,448
R4Q ROIC	14.9%	13.9%	15.3%	24.9%	31.2%	30.2%	26.4%	21.1%	15.6%	13.2%	13.6%	11.9%	14.8%	20.4%	21.3%	21.0%
R4Q ROA	9.8%	9.2%	10.4%	17.0%	21.2%	20.7%	18.1%	14.6%	10.9%	9.2%	9.5%	8.5%	10.5%	14.3%	14.9%	14.7%
Worldwide Headcount	43,898	45,991	52,208	55,128	61,803	62,500	62,817	62,991	61,349	65,431	67,799	67,121	106,604	103,111	96,002	93,820

Business Model

Gross Margin*
27%-32%

Operating Expense*
10%-12%

Operating Income*
15%-22%

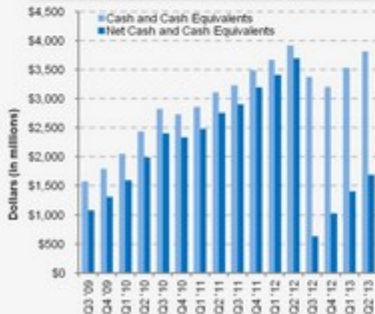
Tax
7%-10% of Income
Before Tax

Capital Expenditures*
5%-7%

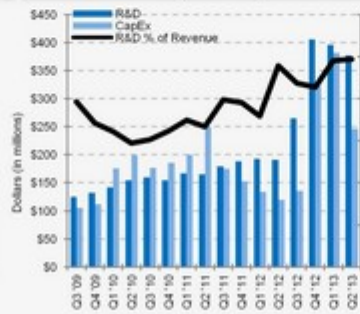
Conversion Cycle
4-8 Days

*Percent of Revenue

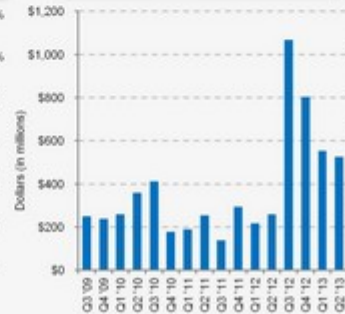
Gross vs. Net Cash & Cash Equivalents



R&D and Capital Expenditures



Free Cash Flow



R4Q Return on Invested Capital



Non-GAAP Financial Measures

Free Cash Flow: Free cash flow is a non-GAAP financial measure defined as cash flows from operations less capital expenditures. 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 and repurchasing stock. We also believe that free cash flow is one of several benchmarks used by investors for comparison of our liquidity with other companies in our industry, although our measure of free cash flow may not be directly comparable to similar measures reported by other companies. Free cash flow should not be construed as an alternative to cash flows from operations or other cash flow measurements determined in accordance with GAAP.

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. While EBITDA is a relevant and widely used measure of operating performance, it does not represent net income as defined by GAAP and it should not be considered as an alternative to that measure in evaluating operating performance.

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 unusual or non-recurring charges to cost of goods sold. For Q3 FY12, non-GAAP gross profit excludes costs recognized upon the sale of inventory that was written-up to fair value in connection with the HGST acquisition. Because we believe these costs 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.

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	FY09	FY09	FY10	FY10	FY10	FY10	FY11	FY11	FY11	FY11	FY12	FY12	FY12	FY12	FY13	FY13
Reconciliation of Cash Flows from Operations to Free Cash Flow																
Cash Flows from Operations	\$355	\$349	\$434	\$557	\$588	\$363	\$390	\$505	\$313	\$447	\$352	\$378	\$1,208	\$1,128	\$936	\$772
Capital Expenditures	(166)	(111)	(176)	(199)	(177)	(185)	(200)	(250)	(175)	(153)	(134)	(120)	(129)	(124)	(282)	(246)
Free Cash Flow	\$249	\$238	\$258	\$358	\$411	\$178	\$190	\$255	\$138	\$294	\$218	\$258	\$1,079	\$804	\$654	\$526
Reconciliation of Net Income to EBITDA																
Net Income	\$50	\$196	\$288	\$429	\$400	\$265	\$197	\$225	\$148	\$158	\$239	\$145	\$483	\$745	\$519	\$335
Interest	3	2	2	2	1	1	-	1	(1)	2	1	2	4	7	14	10
Income Tax Expense	8	11	29	42	40	27	14	14	13	12	19	15	55	56	59	133
Depreciation and Amortization	119	122	121	126	128	134	150	151	151	150	158	140	188	322	312	309
EBITDA	\$180	\$331	\$440	\$599	\$569	\$427	\$361	\$391	\$309	\$322	\$417	\$302	\$730	\$1,147	\$905	\$787
Reconciliation of Gross Margin to Non-GAAP Gross Margin and Gross Profit to Non-GAAP Gross Profit																
Gross Profit	\$253	\$370	\$514	\$687	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$977	\$1,472	\$1,193	\$1,059
Acquisition-Related Fair Value Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	91	-	-	-
Amortization of Intangible Assets Acquired from HGST	-	-	-	-	-	-	-	-	-	-	-	-	9	32	38	38
Non-GAAP Gross Profit	\$253	\$370	\$514	\$687	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$1,077	\$1,511	\$1,231	\$1,097
Revenue	\$1,592	\$1,928	\$2,208	\$2,619	\$2,641	\$2,382	\$2,396	\$2,475	\$2,252	\$2,403	\$2,694	\$1,995	\$3,035	\$4,754	\$4,035	\$3,824
Gross Margin	15.9%	19.2%	23.3%	26.2%	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	32.2%	31.0%	29.6%	27.7%
Non-GAAP Gross Margin	15.9%	19.2%	23.3%	26.2%	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	35.5%	31.8%	30.5%	28.7%

Non-GAAP Financial Measures

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 unusual or non-recurring charges or any tax impact related to those charges.

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	FY09	FY09	FY10	FY10	FY10	FY10	FY11	FY11	FY11	FY11	FY12	FY12	FY12	FY12	FY13	FY13
Reconciliation of Net Income to Non-GAAP Net Income																
Net Income	\$50	\$196	\$288	\$429	\$400	\$265	\$197	\$225	\$146	\$158	\$239	\$145	\$483	\$745	\$519	\$335
Acquisition-Related Expense	—	—	—	—	—	—	—	—	10	10	14	14	34	—	—	—
Litigation Accruals	—	—	—	—	—	27	—	—	—	25	7	—	—	—	—	—
Charges Related to Flooding, Net of Recoveries	—	—	—	—	—	—	—	—	—	—	—	199	15	—	—	—
In-Process Research and Development Charge	14	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition-Related Adjustments to Fair Value of Inventory / Cost of Revenue	—	—	—	—	—	—	—	—	—	—	—	—	91	—	—	—
Amortization of Intangible Assets Acquired from HGST	—	—	—	—	—	—	—	—	—	—	—	—	12	51	49	49
Restructuring	4	(23)	—	—	—	—	—	—	—	—	—	—	—	80	26	41
Tax Impact	—	—	—	—	—	—	—	—	—	—	—	—	(15)	(4)	—	88
Non-GAAP Net Income	\$68	\$173	\$288	\$429	\$400	\$292	\$197	\$225	\$156	\$193	\$260	\$358	\$619	\$872	\$594	\$513
EPS	\$0.22	\$0.86	\$1.25	\$1.85	\$1.71	\$1.13	\$0.84	\$0.96	\$0.62	\$0.67	\$1.01	\$0.61	\$1.96	\$2.87	\$2.06	\$1.36
Non-GAAP EPS	\$0.30	\$0.76	\$1.25	\$1.85	\$1.71	\$1.24	\$0.84	\$0.96	\$0.66	\$0.81	\$1.10	\$1.51	\$2.52	\$3.35	\$2.36	\$2.09
Diluted Shares Outstanding	226	227	230	232	234	235	234	235	236	237	237	237	246	260	252	246

Footnotes

- 1.Q1 FY11 ASP, Revenue by Channel and Revenue by Geography exclude external sales of media/substrates
- 2.Unit volume excludes WD TV Media Players without hard drives, WD Livewire, SSD and media
- 3.Worldwide Headcount excludes temporary employees
- 4.Consumer Electronics includes gaming

Formulas

Share = Units / TAM

ASP = Revenue / Units

Free Cash Flow = Cash Flow from Operations – Capital Expenditures

EBITDA = Net income + Interest + 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 ROIC = R4Q (Net Income from Continuing Operations + Interest Expense) / R4Q Average (Equity + Debt)

R4Q ROA = R4Q Net Income from Continuing Operations / R4Q Average Total Assets

