

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

*(Mark One)*

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended December 27, 2024**

**Or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-8703**



**Western Digital®**

**WESTERN DIGITAL CORPORATION**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**5601 Great Oaks Parkway San Jose, California**  
*(Address of principal executive offices)*

**33-0956711**

*(I.R.S. Employer Identification No.)*

**95119**  
*(Zip Code)*

**Registrant's telephone number, including area code: (408) 717-6000**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 Par Value Per Share	WDC	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of the close of business on January 22, 2025, 347,823,902 shares of common stock, par value \$0.01 per share, were outstanding.

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# WESTERN DIGITAL CORPORATION

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Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters, and references to financial information are on a consolidated basis. As used herein, the terms "we," "us," "our," the "Company," "WDC," and "Western Digital" refer to Western Digital Corporation and its subsidiaries, unless we state, or the context indicates, otherwise.

WDC, a Delaware corporation, is the parent company of our data storage business. Our principal executive offices are located at 5601 Great Oaks Parkway, San Jose, California 95119. Our telephone number is (408) 717-6000.

Western Digital, the Western Digital logo, SanDisk, and WD are registered trademarks or trademarks of Western Digital or its affiliates in the U.S. and/or other countries. All other trademarks, registered trademarks and/or service marks, indicated or otherwise, are the property of their respective owners.

## FORWARD-LOOKING STATEMENTS

*This document contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as “may,” “will,” “could,” “would,” “project,” “believe,” “anticipate,” “expect,” “estimate,” “continue,” “potential,” “plan,” “forecast,” and the like, or the use of future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning: our expectations regarding our plan to separate our hard disk drives (“HDD”) and flash-based products (“Flash”) business units; the impact of the global macroeconomic environment; expectations regarding demand trends and market conditions for our products; expectations related to our sale of a portion of our equity interest in SanDisk Semiconductor (Shanghai) Co. Ltd.; expectations related to our joint ventures and partnerships including relating to our Flash Ventures joint venture with Kioxia Corporation (“Kioxia”); expectations regarding our tax resolutions, effective tax rate and our unrecognized tax benefits; expectations regarding the merits of our position and our plans with respect to certain litigation matters; and our beliefs regarding our capital allocation plans and the sufficiency of our available liquidity to meet our working capital, debt and capital expenditure needs.*

*These forward-looking statements are based on management’s current expectations, represent the most current information available to us as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and other factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements. These risks and uncertainties include, but are not limited to:*

- *volatility in global or regional economic conditions and our responsive actions thereto;*
- *operational, financial and legal challenges and difficulties inherent in implementing a separation of our HDD and Flash business units;*
- *dependence on a limited number of suppliers or disruptions in our supply chain;*
- *the outcome, timing and impact of the planned separation of our HDD and Flash business units, including with respect to customer and supplier relationships, contractual restrictions, stock price volatility and the diversion of management’s attention from ongoing business operations and opportunities;*
- *future responses to and effects of public health crises;*
- *the impact of business and market conditions;*
- *damage or disruption to our operations or to those of our suppliers;*
- *hiring and retention of key employees;*
- *compromise, damage or interruption from cybersecurity incidents or other data or system security risks;*
- *product defects;*
- *our reliance on strategic relationships with key partners, including Kioxia;*
- *the competitive environment, including actions by our competitors, and the impact of competitive products and pricing;*
- *our development and introduction of products based on new technologies and expansion into new data storage markets;*
- *risks associated with cost saving initiatives, restructurings, acquisitions, divestitures, mergers, joint ventures and our strategic relationships;*
- *changes to our relationships with key customers;*
- *our ability to respond to market and other changes in our distribution channel and retail market;*
- *our level of debt and other financial obligations;*
- *changes in tax laws or unanticipated tax liabilities;*
- *fluctuations in currency exchange rates in connection with our international operations;*
- *risks associated with compliance with changing legal and regulatory requirements and the outcome of legal proceedings;*
- *risks associated with our goals relating to environmental, social and governance matters, including our ability to meet our GHG emissions reduction and other ESG goals;*
- *our reliance on intellectual property and other proprietary information; and*
- *the other risks and uncertainties disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended June 28, 2024 (our “2024 Annual Report on Form 10-K”), as amended, supplemented or superseded in our other reports filed with the Securities and Exchange Commission, including under “Risk Factors” in Item 1A of our subsequent Quarterly Reports on Form 10-Q.*

*You are urged to carefully review the disclosures we make concerning these risks and review the additional disclosures we make concerning material risks and other factors that may affect the outcome of our forward-looking statements and our business and operating results, including those made in Part I, Item 1A of our 2024 Annual Report on Form 10-K and any of those made in our other reports filed with the Securities and Exchange Commission, including under “Risk Factors” in Item 1A of subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that may from time to time amend, supplement or supersede the risks and uncertainties disclosed in the 2024 Annual Report on Form 10-K. You are cautioned not to place undue reliance on the forward-looking statements included in this Quarterly Report on Form 10-Q, which speak only as of the date of this document. We do not intend, and undertake no obligation, to update or revise these forward-looking statements to reflect new information or events after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.*

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (unaudited)**

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except par value)  
(Unaudited)

	December 27, 2024	June 28, 2024
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,291	\$ 1,879
Accounts receivable, net	2,597	2,166
Inventories	3,420	3,342
Other current assets	1,064	673
Total current assets	9,372	8,060
Property, plant and equipment, net	2,930	3,167
Notes receivable and investments in Flash Ventures	861	991
Goodwill	9,729	10,032
Other intangible assets, net	77	78
Other non-current assets	2,487	1,860
Total assets	<u>\$ 25,456</u>	<u>\$ 24,188</u>
<b>LIABILITIES, CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,627	\$ 1,411
Accounts payable to related parties	369	313
Accrued expenses	1,576	1,480
Income taxes payable	468	525
Accrued compensation	516	608
Current portion of long-term debt	150	1,750
Total current liabilities	4,706	6,087
Long-term debt	7,216	5,684
Other liabilities	1,188	1,370
Total liabilities	13,110	13,141
Commitments and contingencies (Notes 9, 10, 12 and 16)		
Convertible preferred stock, \$0.01 par value; authorized — 5 shares; issued and outstanding — 0.2 shares; aggregate liquidation preference of \$265 and \$257, respectively	229	229
Shareholders' equity:		
Common stock, \$0.01 par value; authorized — 750 shares; issued and outstanding — 348 shares and 343 shares, respectively	3	3
Additional paid-in capital	4,885	4,752
Accumulated other comprehensive loss	(633)	(712)
Retained earnings	7,862	6,775
Total shareholders' equity	12,117	10,818
Total liabilities, convertible preferred stock and shareholders' equity	<u>\$ 25,456</u>	<u>\$ 24,188</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share amounts)  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Revenue, net	\$ 4,285	\$ 3,032	\$ 8,380	\$ 5,782
Cost of revenue	2,769	2,540	5,313	5,191
Gross profit	1,516	492	3,067	591
Operating expenses:				
Research and development	502	444	1,021	875
Selling, general and administrative	238	198	480	405
Gain on business divestiture	(113)	—	(113)	—
Business separation costs	44	36	87	36
Litigation matter	—	—	3	—
Employee termination, asset impairment and other	(7)	24	(5)	81
Total operating expenses	664	702	1,473	1,397
Operating income (loss)	852	(210)	1,594	(806)
Interest and other expense:				
Interest income	11	12	20	20
Interest expense	(95)	(108)	(194)	(206)
Other income (expense), net	(27)	47	(51)	51
Total interest and other expense, net	(111)	(49)	(225)	(135)
Income (loss) before taxes	741	(259)	1,369	(941)
Income tax expense	147	28	282	31
Net income (loss)	594	(287)	1,087	(972)
Less: dividends allocated to preferred shareholders	4	14	8	29
Less: income attributable to preferred shareholders	9	—	17	—
Net income (loss) attributable to common shareholders	\$ 581	\$ (301)	\$ 1,062	\$ (1,001)
Net income (loss) per common share:				
Basic	\$ 1.68	\$ (0.93)	\$ 3.08	\$ (3.09)
Diluted	\$ 1.63	\$ (0.93)	\$ 2.98	\$ (3.09)
Weighted average shares outstanding:				
Basic	346	325	345	324
Diluted	357	325	357	324

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in millions)**  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
Net income (loss)	\$ 594	\$ (287)	\$ 1,087	\$ (972)
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustment	(100)	58	21	20
Net unrealized gain (loss) on derivative contracts	(169)	99	74	41
Total other comprehensive income (loss), before tax	(269)	157	95	61
Income tax benefit (expense) related to items of other comprehensive income (loss), before tax	36	(19)	(16)	(6)
Other comprehensive income (loss), net of tax	(233)	138	79	55
Total comprehensive income (loss)	<u>\$ 361</u>	<u>\$ (149)</u>	<u>\$ 1,166</u>	<u>\$ (917)</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)  
(Unaudited)

	Six Months Ended	
	December 27, 2024	December 29, 2023
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 1,087	\$ (972)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	255	290
Stock-based compensation	161	149
Deferred income taxes	26	(68)
Gain on disposal of assets	(5)	(87)
Gain on business divestiture	(113)	—
Asset impairment	—	95
Gain on repurchase of debt	—	(4)
Amortization of debt issuance costs and discounts	10	9
Other non-cash operating activities, net	57	(28)
Changes in:		
Accounts receivable, net	(431)	75
Inventories	(112)	482
Accounts payable	242	299
Accounts payable to related parties	(54)	(41)
Accrued expenses	109	(246)
Income taxes payable	(57)	(494)
Accrued compensation	(76)	4
Other assets and liabilities, net	(662)	(181)
Net cash provided by (used in) operating activities	437	(718)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(212)	(274)
Proceeds from the sale of property, plant and equipment	4	193
Net proceeds from business divestiture	191	—
Notes receivable issuances to Flash Ventures	(266)	(184)
Notes receivable proceeds from Flash Ventures	182	263
Distribution from Flash Ventures	176	—
Strategic investments and other, net	3	26
Net cash provided by investing activities	78	24
<b>Cash flows from financing activities</b>		
Issuance of stock under employee stock plans	52	40
Taxes paid on vested stock awards under employee stock plans	(80)	(50)
Convertible preferred stock issuance costs	—	(5)
Purchase of capped calls	—	(155)
Repurchases of debt	—	(505)
Repayments of debt	(225)	(338)
Proceeds from debt	150	2,200
Debt issuance costs	—	(36)
Net cash provided by (used in) financing activities	(103)	1,151
Effect of exchange rate changes on cash	—	1
Net increase in cash and cash equivalents	412	458
Cash and cash equivalents, beginning of year	1,879	2,023
Cash and cash equivalents, end of period	\$ 2,291	\$ 2,481
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$ 673	\$ 791
Cash paid for interest	\$ 177	\$ 182

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY**  
(in millions)  
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at June 28, 2024</b>	0.2	\$ 229	343	\$ 3	\$ 4,752	\$ (712)	\$ 6,775	\$ 10,818
Net income	—	—	—	—	—	—	493	493
Employee stock plans	—	—	3	—	(64)	—	—	(64)
Stock-based compensation	—	—	—	—	84	—	—	84
Foreign currency translation adjustment	—	—	—	—	—	121	—	121
Net unrealized loss on derivative contracts, net of taxes	—	—	—	—	—	191	—	191
<b>Balance at September 27, 2024</b>	0.2	229	346	3	4,772	(400)	7,268	11,643
Net income	—	—	—	—	—	—	594	594
Employee stock plans	—	—	2	—	36	—	—	36
Stock-based compensation	—	—	—	—	77	—	—	77
Foreign currency translation adjustment	—	—	—	—	—	(100)	—	(100)
Net unrealized loss on derivative contracts, net of taxes	—	—	—	—	—	(133)	—	(133)
<b>Balance at December 27, 2024</b>	0.2	\$ 229	348	\$ 3	\$ 4,885	\$ (633)	\$ 7,862	\$ 12,117

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY**  
(in millions)  
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at June 30, 2023</b>	0.9	\$ 876	322	\$ 3	\$ 3,936	\$ (548)	\$ 7,573	\$ 10,964
Net loss	—	—	—	—	—	—	(685)	(685)
Employee stock plans	—	—	2	—	(43)	—	—	(43)
Stock-based compensation	—	—	—	—	77	—	—	77
Foreign currency translation adjustment	—	—	—	—	—	(38)	—	(38)
Net unrealized loss on derivative contracts, net of taxes	—	—	—	—	—	(45)	—	(45)
<b>Balance at September 29, 2023</b>	0.9	876	324	3	3,970	(631)	6,888	10,230
Net loss	—	—	—	—	—	—	(287)	(287)
Employee stock plans	—	—	2	—	33	—	—	33
Stock-based compensation	—	—	—	—	72	—	—	72
Purchase of capped calls related to the issuance of convertible notes, net of tax	—	—	—	—	(118)	—	—	(118)
Foreign currency translation adjustment	—	—	—	—	—	58	—	58
Net unrealized gain on derivative contracts, net of taxes	—	—	—	—	—	80	—	80
<b>Balance at December 29, 2023</b>	0.9	\$ 876	326	\$ 3	\$ 3,957	\$ (493)	\$ 6,601	\$ 10,068

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Organization and Basis of Presentation**

Western Digital Corporation (“Western Digital” or the “Company”) is a leading developer, manufacturer, and provider of data storage devices and solutions based on both hard disk drive and NAND flash technologies.

The Company’s broad portfolio of technology and products addresses the following key end markets: Cloud, Client, and Consumer. The Company also generates immaterial license and royalty revenue from its extensive intellectual property portfolio, which is included in each of these three end market categories.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 1, *Organization and Basis of Presentation*, of the Notes to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended June 28, 2024. In the opinion of management, all adjustments necessary to fairly state the Condensed Consolidated Financial Statements have been made. Such adjustments consist of items of a normal, recurring nature. Certain information and footnote disclosures normally included in the Consolidated Financial Statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 28, 2024. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

*Fiscal Year*

The Company’s fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Approximately every five to six years, the Company reports a 53-week fiscal year to align the fiscal year with the foregoing policy. Fiscal year 2025, which will end on June 27, 2025, and fiscal year 2024, which ended on June 28, 2024, are each comprised of 52 weeks, with all quarters presented consisting of 13 weeks.

*Segment Reporting*

The Company manufactures, markets, and sells data storage devices and solutions in the United States (“U.S.”) and in foreign countries through its sales personnel, dealers, distributors, retailers, and subsidiaries. The Company manages and reports under two reportable segments: hard disk drives (“HDD”) and flash-based products (“Flash”).

The Chief Executive Officer, who is the Company’s Chief Operating Decision Maker (“CODM”), evaluates the performance of the Company and makes decisions regarding the allocation of resources based on each operating segment’s net revenue and gross margin. Because of the integrated nature of the Company’s production and distribution activities, separate segment asset measures are either not available or not used as a basis for the CODM to evaluate the performance of or to allocate resources to the segments.

*Business Separation Costs*

On October 30, 2023, the Company announced that its Board of Directors had completed its strategic review of the business and, after evaluating a comprehensive range of alternatives, authorized the Company to pursue a plan to separate its HDD and Flash business units to create two independent, public companies. As a result of the plan, the Company has incurred separation and transition costs and expects to incur such costs through the completion of the separation of the businesses. The separation and transition costs are recorded within Business separation costs in the Condensed Consolidated Statements of Operations.

*Use of Estimates*

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with U.S. GAAP. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented. However, actual results could differ materially from these estimates.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 2. Recent Accounting Pronouncements**

*Accounting Pronouncements Recently Adopted*

In September 2022, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update (“ASU”) No. 2022-04, “Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations” (“ASU 2022-04”), which requires annual and interim disclosures for entities that use supplier finance programs in connection with the purchase of goods and services. As required by ASU 2022-04, the Company began to provide disclosure of outstanding obligations to such suppliers for all balance sheet dates presented beginning with the Company’s first quarter of 2024. ASU 2022-04 also requires the Company to provide certain annual rollforward information related to those obligations, which will be required beginning with the Company’s financial statements for the year ending June 27, 2025. The Company will provide this disclosure in its Annual Report on Form 10-K for the year ended June 27, 2025. ASU 2022-04 does not affect the recognition, measurement, or financial statement presentation of supplier finance program obligations. See Note 15, *Supplier Finance Program* for information regarding the supplier finance program.

*Recently Issued Accounting Pronouncements Not Yet Adopted*

In November 2024, the FASB issued ASU 2024-03, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses,” which is intended to improve disclosures about the expenses of public entities. The new guidance requires more detailed information about the types of expenses in commonly presented expense captions (such as cost of sales and selling, general and administrative expenses) and requires public entities to disclose, on an annual and interim basis, the amounts of expenses included in each relevant expense caption presented on the face of the income statement within continuing operations in a tabular format. Additionally, public entities will be required to disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively, the total amount of selling expenses, and, in annual reporting periods, the definition of selling expenses. This standard is effective on either a prospective or retrospective basis for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The Company is currently compiling the information required for these disclosures, assessing the basis of adoption and expects to adopt the guidance for annual reporting periods in its annual report for the year ending June 30, 2028.

In November 2023, the FASB issued ASU No. 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” (“ASU 2023-07”), which expands on segment reporting requirements primarily through enhanced disclosures surrounding significant segment expenses. ASU 2023-07 expands on existing segment reporting requirements to require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to an entity’s CODM, a description of other segment items by reportable segment, and any additional measures of a segment’s profit or loss used by the CODM when deciding how to allocate resources. These incremental disclosures will be required beginning with the Company’s financial statements for the year ending June 27, 2025. The Company is currently assessing these reporting requirements and expects to provide any required disclosures at the required time.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” (“ASU 2023-09”). ASU 2023-09 calls for enhanced income tax disclosure requirements surrounding the tabular rate reconciliation and income taxes paid. The Company is currently compiling the information required for these disclosures. These incremental disclosures will be required beginning with the Company’s financial statements for the year ending June 26, 2026, with early adoption permitted. The Company expects to provide any required disclosures at that time.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 3. Business Segments, Geographic Information, and Concentrations of Risk**

The following table summarizes the operating performance of the Company's reportable segments for the periods presented:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions, except percentages)</i>			
<b>Net revenue:</b>				
HDD	\$ 2,409	\$ 1,367	\$ 4,620	\$ 2,561
Flash	1,876	1,665	3,760	3,221
Total net revenue	<u>\$ 4,285</u>	<u>\$ 3,032</u>	<u>\$ 8,380</u>	<u>\$ 5,782</u>
<b>Gross profit:</b>				
HDD	\$ 929	\$ 339	\$ 1,772	\$ 612
Flash	609	131	1,341	(30)
Total gross profit for segments	<u>1,538</u>	<u>470</u>	<u>3,113</u>	<u>582</u>
<b>Unallocated corporate items:</b>				
Stock-based compensation expense	(12)	(13)	(26)	(26)
Amortization of licenses related to a litigation matter	(10)	—	(19)	—
Amortization of acquired intangible assets	—	(1)	(1)	(1)
Recovery from contamination incident	—	36	—	36
Total unallocated corporate items	<u>(22)</u>	<u>22</u>	<u>(46)</u>	<u>9</u>
Consolidated gross profit	<u>\$ 1,516</u>	<u>\$ 492</u>	<u>\$ 3,067</u>	<u>\$ 591</u>
<b>Gross margin:</b>				
HDD	38.6 %	24.8 %	38.4 %	23.9 %
Flash	32.5 %	7.9 %	35.7 %	(0.9)%
Consolidated gross margin	35.4 %	16.2 %	36.6 %	10.2 %

*Disaggregated Revenue*

The Company's broad portfolio of technology and products addresses multiple end markets. Cloud is comprised primarily of products for public or private cloud environments and end customers. Through the Client end market, the Company provides its original equipment manufacturer ("OEM") and channel customers a broad array of high-performance HDD and Flash solutions across personal computer, mobile, gaming, automotive, virtual reality headsets, at-home entertainment and industrial spaces. The Consumer end market is highlighted by the Company's broad range of retail and other end-user products, which capitalize on the strength of the Company's product brand recognition and vast points of presence around the world.

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The Company's disaggregated revenue information was as follows:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
<i>(in millions)</i>				
<b>Revenue by end market</b>				
Cloud	\$ 2,346	\$ 1,071	\$ 4,554	\$ 1,943
Client	1,168	1,122	2,377	2,269
Consumer	771	839	1,449	1,570
<b>Total revenue</b>	<b>\$ 4,285</b>	<b>\$ 3,032</b>	<b>\$ 8,380</b>	<b>\$ 5,782</b>
<b>Revenue by geography</b>				
Asia	\$ 1,995	\$ 1,699	\$ 3,832	\$ 3,250
Americas	1,428	804	3,118	1,466
Europe, Middle East and Africa	862	529	1,430	1,066
<b>Total revenue</b>	<b>\$ 4,285</b>	<b>\$ 3,032</b>	<b>\$ 8,380</b>	<b>\$ 5,782</b>

The Company's top 10 customers accounted for 51% and 50% of its net revenue for the three and six months ended December 27, 2024, respectively, and 39% of its net revenue for both the three and six months ended December 29, 2023. For the three and six months ended December 27, 2024, one customer accounted for 14% of the Company's net revenue. No customer accounted for 10% or more of the Company's net revenue for the three and six months ended December 29, 2023.

#### *Goodwill*

Goodwill is not amortized. Instead, it is tested for impairment annually as of the beginning of the Company's fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Management performed goodwill impairment assessments for each segment and concluded there were no indications of impairment for the periods presented. The following table provides a summary of goodwill activity for the period:

	HDD	Flash	Total
	<i>(in millions)</i>		
Balance at June 28, 2024	\$ 4,319	\$ 5,713	\$ 10,032
Divestiture <sup>(1)</sup>	—	(303)	(303)
<b>Balance at December 27, 2024</b>	<b>\$ 4,319</b>	<b>\$ 5,410</b>	<b>\$ 9,729</b>

<sup>(1)</sup> On September 28, 2024, the Company sold a majority interest in a subsidiary. See further discussion in Note 9, *Related Parties and Related Commitments and Contingencies*.

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**Note 4. Supplemental Financial Statement Data**
*Accounts receivable, net*

From time to time, in connection with factoring agreements, the Company sells trade accounts receivable without recourse to third-party purchasers in exchange for cash. There were no trade accounts receivable sold during the six months ended December 27, 2024. During the six months ended December 29, 2023, the Company sold trade accounts receivable aggregating to \$392 million. The discounts on the trade accounts receivable sold were not material and were recorded within Other income (expense), net in the Condensed Consolidated Statements of Operations. There were no factored receivables outstanding as of December 27, 2024 and June 28, 2024.

*Inventories*

	December 27, 2024	June 28, 2024
<i>(in millions)</i>		
<b>Inventories:</b>		
Raw materials and component parts	\$ 1,916	\$ 1,727
Work-in-process	957	1,066
Finished goods	547	549
<b>Total inventories</b>	<b>\$ 3,420</b>	<b>\$ 3,342</b>

*Property, plant and equipment, net*

	December 27, 2024	June 28, 2024
<i>(in millions)</i>		
<b>Property, plant and equipment:</b>		
Land and improvements	\$ 235	\$ 235
Buildings and improvements	1,806	1,820
Machinery and equipment	7,889	8,646
Computer equipment and software	469	471
Furniture and fixtures	51	54
Construction-in-process	683	797
Property, plant and equipment, gross	11,133	12,023
Accumulated depreciation	(8,203)	(8,856)
<b>Property, plant and equipment, net</b>	<b>\$ 2,930</b>	<b>\$ 3,167</b>

*Other intangible assets, net*

As part of prior acquisitions, the Company recorded at the time of the acquisition acquired in-process research and development (“IPR&D”) for projects in progress that had not yet reached technological feasibility. IPR&D is initially accounted for as an indefinite-lived intangible asset. Once a project reaches technological feasibility, the Company reclassifies the balance to existing technology and begins to amortize the intangible asset over its estimated useful life. As of December 27, 2024 and June 28, 2024, IPR&D included in intangible assets, net was \$72 million. During the three and six months ended December 27, 2024 and December 29, 2023, the Company did not record any impairment charges related to IPR&D.

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*Product warranty liability*

Changes in the warranty accrual were as follows:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions)</i>			
Warranty accrual, beginning of period	\$ 160	\$ 218	\$ 189	\$ 244
Charges to operations	33	26	58	48
Utilization	(22)	(40)	(59)	(83)
Changes in estimate related to pre-existing warranties	(6)	(2)	(23)	(7)
Warranty accrual, end of period	<u>\$ 165</u>	<u>\$ 202</u>	<u>\$ 165</u>	<u>\$ 202</u>

The current portion of the warranty accrual was classified in Accrued expenses and the long-term portion was classified in Other liabilities as noted below:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Warranty accrual:		
Current portion	\$ 57	\$ 36
Long-term portion	108	153
Total warranty accrual	<u>\$ 165</u>	<u>\$ 189</u>

*Other liabilities*

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Other liabilities:		
Non-current net tax payable	\$ —	\$ 201
Non-current portion of unrecognized tax benefits	590	565
Other non-current liabilities	598	604
Total other liabilities	<u>\$ 1,188</u>	<u>\$ 1,370</u>

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*Accumulated other comprehensive loss*

Accumulated other comprehensive loss (“AOCL”), net of tax, refers to expenses, gains, and losses that are recorded as an element of shareholders’ equity but are excluded from net income. The components of AOCL were as follows:

	Actuarial Pension Gains	Foreign Currency Translation Adjustment	Unrealized Losses on Derivative Contracts	Total Accumulated Comprehensive Loss
	<i>(in millions)</i>			
<b>Balance at June 28, 2024</b>	\$ 14	\$ (505)	\$ (221)	\$ (712)
Other comprehensive income (loss) before reclassifications	—	21	(40)	(19)
Amounts reclassified from accumulated other comprehensive loss	—	—	114	114
Income tax expense related to items of other comprehensive income	—	—	(16)	(16)
Net current-period other comprehensive income	—	21	58	79
<b>Balance at December 27, 2024</b>	<u>\$ 14</u>	<u>\$ (484)</u>	<u>\$ (163)</u>	<u>\$ (633)</u>

During the three and six months ended December 27, 2024, the amounts reclassified out of AOCL were losses related to foreign exchange contracts that were substantially charged to Cost of revenue in the Condensed Consolidated Statements of Operations.

As of December 27, 2024, substantially all existing net losses related to cash flow hedges recorded in AOCL are expected to be reclassified to earnings within the next twelve months.

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**Note 5. Fair Value Measurements and Investments**
*Financial Instruments Carried at Fair Value*

Financial assets and liabilities that are remeasured and reported at fair value at each reporting period are classified and disclosed in one of the following three levels:

*Level 1.* Quoted prices in active markets for identical assets or liabilities.

*Level 2.* Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3.* Inputs that are unobservable for the asset or liability and that are significant to the fair value of the assets or liabilities.

The following tables present information about the Company's financial instruments that were measured at fair value on a recurring basis for the periods presented, and indicate the fair value hierarchy of the valuation techniques utilized to determine such values:

	December 27, 2024			
	Level 1	Level 2	Level 3	Total
	<i>(in millions)</i>			
<b>Assets:</b>				
Cash equivalents - Money market funds	\$ 745	\$ —	\$ —	\$ 745
Foreign exchange contracts	—	23	—	23
Total assets at fair value	<u>\$ 745</u>	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 768</u>
<b>Liabilities:</b>				
Foreign exchange contracts	\$ —	\$ 156	\$ —	\$ 156
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 156</u>	<u>\$ —</u>	<u>\$ 156</u>

	June 28, 2024			
	Level 1	Level 2	Level 3	Total
	<i>(in millions)</i>			
<b>Assets:</b>				
Cash equivalents - Money market funds	\$ 416	\$ —	\$ —	\$ 416
Foreign exchange contracts	—	8	—	8
Total assets at fair value	<u>\$ 416</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 424</u>
<b>Liabilities:</b>				
Foreign exchange contracts	\$ —	\$ 197	\$ —	\$ 197
Total liabilities at fair value	<u>\$ —</u>	<u>\$ 197</u>	<u>\$ —</u>	<u>\$ 197</u>

During the periods presented, the Company had no transfers of financial instruments between levels and there were no changes in valuation techniques or the inputs used in the fair value measurement.

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*Financial Instruments Not Carried at Fair Value*

For financial instruments where the carrying value (which includes principal adjusted for any unamortized issuance costs and discounts or premiums) differs from fair value (which is based on quoted market prices), the following table represents the related carrying value and fair value for each of the Company's outstanding financial instruments. Each of the financial instruments presented below was categorized as Level 2 for all periods presented, based on the frequency of trading immediately prior to the end of the second quarter of 2025 and the fourth quarter of 2024, respectively.

	December 27, 2024		June 28, 2024	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in millions)</i>			
4.75% senior unsecured notes due 2026	\$ 2,297	\$ 2,279	\$ 2,296	\$ 2,253
Variable interest rate Term Loan A-2 maturing 2027	2,505	2,487	2,578	2,539
3.00% convertible notes due 2028	1,571	2,155	1,568	2,556
2.85% senior notes due 2029	497	445	496	434
3.10% senior notes due 2032	496	418	496	407
Total	\$ 7,366	\$ 7,784	\$ 7,434	\$ 8,189

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**Note 6. Derivative Instruments and Hedging Activities**

As of December 27, 2024, the Company had outstanding foreign exchange forward contracts that were designated as either cash flow hedges or non-designated hedges. Substantially all of the contract maturity dates of these foreign exchange forward contracts do not exceed 12 months. As of December 27, 2024, the Company did not have any derivative contracts with credit-risk-related contingent features.

Changes in fair values of the non-designated foreign exchange contracts were recognized in Other income (expense), net and were largely offset by corresponding changes in the fair values of the foreign currency-denominated monetary assets and liabilities. For each of the three and six months ended December 27, 2024 and December 29, 2023, total net realized and unrealized transaction and foreign exchange contract currency gains and losses were not material to the Company's Condensed Consolidated Financial Statements.

Unrealized gains or losses on designated cash flow hedges were recognized in AOCL. For more information regarding cash flow hedges, see Note 4, *Supplemental Financial Statement Data – Accumulated other comprehensive loss*.

*Netting Arrangements*

Under certain provisions and conditions within agreements with counterparties to the Company's foreign exchange forward contracts, subject to applicable requirements, the Company has the right of offset associated with the Company's foreign exchange forward contracts and is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. As of December 27, 2024 and June 28, 2024, the effect of rights of offset was not material and the Company did not offset or net the fair value amounts of derivative instruments in its Condensed Consolidated Balance Sheets.

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**Note 7. Debt**

Debt consisted of the following:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
4.75% senior unsecured notes due 2026	\$ 2,300	\$ 2,300
Variable interest rate Term Loan A-2 maturing 2027	2,513	2,588
3.00% convertible notes due 2028	1,600	1,600
2.85% senior notes due 2029	500	500
3.10% senior notes due 2032	500	500
Total debt	7,413	7,488
Issuance costs	(47)	(54)
Subtotal	7,366	7,434
Less: current portion of long-term debt	(150)	(1,750)
Long-term debt	\$ 7,216	\$ 5,684

During the three and six months ended December 27, 2024, the Company made scheduled repayments of the Term Loan A-2 maturing in January 2027 (the "Term Loan A-2") of \$38 million and \$75 million, respectively. The Term Loan A-2 Loan bears interest, at the Company's option, at a per annum rate equal to either (x) the Adjusted Term SOFR (as defined in the loan agreement governing the Term Loan A-2) plus an applicable margin varying from 1.125% to 2.000% or (y) a base rate plus an applicable margin varying from 0.125% to 1.000%, in each case depending on the corporate family ratings of the Company from at least two of the Credit Rating Agencies, with an initial interest rate of Adjusted Term SOFR plus 1.500%. The all-in interest rate for Term Loan A-2 as of December 27, 2024 was 6.107%.

During the six months ended December 27, 2024, the Company drew and repaid \$150 million principal amount under its \$2.25 billion revolving credit facility maturing in January 2027 (the "2027 Revolving Credit Facility"). As of December 27, 2024, the Company had no outstanding standby letters of credit and the available capacity under the 2027 Revolving Credit Facility was \$2.25 billion as of that date.

The loan agreements governing the Company's 2027 Revolving Credit Facility and Term Loan A-2 require the Company to comply with a financial leverage ratio covenant. As of December 27, 2024, the Company was in compliance with the financial covenant.

On November 3, 2023, the Company issued \$1.60 billion aggregate principal amount of convertible senior notes which bear interest at an annual rate of 3.00% and mature on November 15, 2028, unless earlier repurchased, redeemed or converted (the "2028 Convertible Notes").

The 2028 Convertible Notes are convertible at the option of any holder at an initial conversion price of approximately \$52.20 per share of common stock beginning August 15, 2028. Prior to that date, if the trading price of the Company's common stock remains above 130% of the conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading-day period prior to the end of a quarter, holders of the 2028 Convertible Notes would have the right to convert the 2028 Convertible Notes during the next succeeding calendar quarter. The 2028 Convertible Notes are also convertible prior to that date upon the occurrence of certain corporate events. Upon any conversion of the 2028 Convertible Notes, the Company will pay cash for the aggregate principal amount of the notes to be converted and pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination thereof, at the Company's election, in respect of the remainder, if any, of its conversion obligation in excess of the aggregate principal amount of the notes being converted.

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During the calendar quarter ended June 30, 2024, the sale price conditional conversion feature of the 2028 Convertible Notes was triggered. As a result, the holder of the 2028 Convertible Notes had the right to convert the 2028 Convertible Notes during the next succeeding calendar quarter through September 30, 2024. Consequently, the Company classified the 2028 Convertible Notes in the Current portion of long-term debt in the Condensed Consolidated Financial Statements as of June 28, 2024. The sale price conditional conversion feature was not triggered during the calendar quarter ended December 31, 2024 and accordingly, the holders of the 2028 Convertible Notes no longer have the right to convert the notes during the succeeding calendar quarter ending March 31, 2025. As a result, the 2028 Convertible Notes were classified as Long-term debt in the Condensed Consolidated Financial Statements as of December 27, 2024. The Company will continue to evaluate the conversion feature quarterly to determine if the 2028 Convertible Notes become convertible in future periods.

In connection with the issuance of the 2028 Convertible Notes, the Company also entered into privately negotiated capped call transactions with certain counterparties (the "Capped Calls"). The Capped Calls each have a strike price of approximately \$52.20 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2028 Convertible Notes. The Capped Calls have initial cap prices of \$70.26 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 8 million shares of the Company's common stock. The Capped Calls are generally intended to reduce or offset the potential dilution to the Company's common stock upon any conversion of the 2028 Convertible Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. However, if the market price per share of the Company's common stock, as measured under the terms of the Capped Calls, exceeds the cap prices of the Capped Calls, there would not be an offset for the excess. The Capped Calls are separate transactions and not part of the terms of the 2028 Convertible Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in shareholders' equity and are not accounted for as derivatives.

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**Note 8. Pension and Other Post-Retirement Benefit Plans**

The Company has pension and other post-retirement benefit plans in various countries. The Company's principal pension plans are in Japan, Thailand, and the Philippines. All pension and other post-retirement benefit plans outside of the Company's Japan, Thailand, and the Philippines defined benefit pension plans (the "Pension Plans") are immaterial to the Condensed Consolidated Financial Statements. The expected long-term rate of return on the Pension Plans' assets is 2.5%.

*Obligations and Funded Status*

The following table presents the unfunded status of the benefit obligations for the Pension Plans:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Benefit obligation at end of period	\$ 247	\$ 244
Fair value of plan assets at end of period	179	184
Unfunded status	\$ 68	\$ 60

The following table presents the unfunded amounts related to the Pension Plans as recognized on the Company's Condensed Consolidated Balance Sheets:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Current liabilities (included in Accrued expenses)	\$ 1	\$ 1
Non-current liabilities (included in Other liabilities)	67	59
Net amount recognized	\$ 68	\$ 60

Net periodic benefit costs were immaterial for the three and six months ended December 27, 2024 and December 29, 2023.

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**Note 9. Related Parties and Related Commitments and Contingencies**

*Flash Ventures*

The Company's business ventures with Kioxia Corporation ("Kioxia") consist of three separate legal entities: Flash Partners Ltd. ("Flash Partners"), Flash Alliance Ltd. ("Flash Alliance"), and Flash Forward Ltd. ("Flash Forward"), collectively referred to as "Flash Ventures".

The following table presents the notes receivable from, and equity investments in, Flash Ventures:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Notes receivable, Flash Partners	\$ 72	\$ 1
Notes receivable, Flash Alliance	35	5
Notes receivable, Flash Forward	476	485
Investment in Flash Partners	44	149
Investment in Flash Alliance	111	216
Investment in Flash Forward	123	135
Total notes receivable and investments in Flash Ventures	<u>\$ 861</u>	<u>\$ 991</u>

The Company made net payments to Flash Ventures for purchased flash-based memory wafers and net loans of \$1.1 billion and \$2.0 billion during the three and six months ended December 27, 2024, respectively, and \$0.8 billion and \$1.8 billion during the three and six months ended December 29, 2023, respectively.

The Company makes, or will make, loans to Flash Ventures to fund equipment investments for new process technologies and additional wafer capacity. The Company aggregates its Flash Ventures' notes receivable into one class of financing receivables due to the similar ownership interest and common structure in each Flash Venture entity. For all reporting periods presented, no loans were past due and no loan impairments were recorded. The Company's notes receivable from each Flash Ventures entity, denominated in Japanese yen, are secured by equipment owned by that Flash Ventures entity.

As of December 27, 2024 and June 28, 2024, the Company had accounts payable balances due to Flash Ventures of \$252 million and \$313 million, respectively.

The Company's maximum reasonably estimable loss exposure (excluding lost profits) as a result of its involvement with Flash Ventures, based upon the Japanese yen to U.S. dollar exchange rate at December 27, 2024, is presented below. Investments in Flash Ventures are denominated in Japanese yen, and the maximum estimable loss exposure excludes any cumulative translation adjustment due to revaluation from the Japanese yen to the U.S. dollar.

	December 27, 2024
	<i>(in millions)</i>
Notes receivable	\$ 583
Equity investments	278
Operating lease guarantees	1,343
Inventory and prepayments	1,393
Maximum estimable loss exposure	<u>\$ 3,597</u>

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The Company is obligated to pay for variable costs incurred in producing its share of Flash Ventures' flash-based memory wafer supply, based on its three-month forecast, which generally equals 50% of Flash Ventures' output. In addition, the Company is obligated to pay for half of Flash Ventures' fixed costs regardless of the output the Company chooses to purchase. The Company is not able to estimate its total wafer purchase commitment obligation beyond its rolling three-month purchase commitment because the price is determined by reference to the future cost of producing the semiconductor wafers. In addition, the Company is committed to fund 49.9% to 50.0% of each Flash Ventures entity's capital investments to the extent that each Flash Ventures entity's operating cash flow is insufficient to fund these investments.

Flash Ventures has historically operated near 100% of its manufacturing capacity. During the three and six months ended December 29, 2023, as a result of flash market conditions, the Company temporarily reduced its utilization of its share of Flash Ventures' manufacturing capacity to an abnormally low level to more closely align the Company's flash-based wafer supply with projected demand. During the three and six months ended December 29, 2023, the Company incurred costs of \$107 million and \$249 million, respectively, associated with the reduction in utilization related to Flash Ventures, which was recorded as a charge to Cost of revenue. No such charges were incurred during the three and six months ended December 27, 2024.

The Company has facility agreements with Kioxia related to the construction and operation of Kioxia's "K1" 300-millimeter wafer fabrication facility in Kitakami, Japan, a wafer fabrication facility in Yokkaichi, Japan, referred to as "Y7", and a wafer fabrication facility in Kitakami, Japan, referred to as "K2". In connection with the start-up of these facilities, the Company has made prepayments toward future building depreciation. In connection with the start-up of the K1, K2 and Y7 facilities, the Company has made prepayments over time, and as of December 27, 2024, \$944 million remains to be credited against future building depreciation charges. As of December 27, 2024, the Company is also committed to make additional building depreciation prepayments of \$303 million, based on the Japanese yen to U.S. dollar exchange rate of 157.86 as of such date, payable as follows: \$60 million for the remainder of fiscal year 2025, \$30 million in fiscal year 2026, \$111 million in fiscal year 2027, \$89 million in fiscal year 2028 and \$13 million in fiscal year 2029. As of December 27, 2024, in addition to the requirements to make building depreciation prepayments, the Company will also make payments for building depreciation of approximately \$107 million at varying dates through fiscal year 2035.

*Inventory Purchase Commitments with Flash Ventures.* Purchase orders placed under Flash Ventures for up to three months are binding and cannot be canceled.

*Research and Development Activities.* The Company participates in common research and development ("R&D") activities with Kioxia and is contractually committed to a minimum funding level. R&D commitments are immaterial to the Condensed Consolidated Financial Statements.

#### *Off-Balance Sheet Liabilities*

Flash Ventures sells to and leases back from a consortium of financial institutions a portion of its tools and has entered into equipment lease agreements of which the Company guarantees half or all of the outstanding obligations under each lease agreement. The lease agreements are subject to customary covenants and cancellation events related to Flash Ventures and each of the guarantors. The occurrence of a cancellation event could result in an acceleration of Flash Ventures' obligations and a call on the Company's guarantees.

The following table presents the Company's portion of the remaining guarantee obligations under the Flash Ventures' lease facilities in both Japanese yen and U.S. dollar-equivalent, based upon the Japanese yen to U.S. dollar exchange rate as of December 27, 2024.

	Lease Amounts	
	(Japanese yen, in billions)	(U.S. dollar, in millions)
Total guarantee obligations	¥ 212	\$ 1,343

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The following table details the breakdown of the Company's remaining guarantee obligations between the principal amortization and the purchase option exercise price at the end of the term of the Flash Ventures lease agreements, in annual installments as of December 27, 2024 in U.S. dollars, based upon the Japanese yen to U.S. dollar exchange rate as of December 27, 2024:

Annual Installments	Payment of Principal Amortization	Purchase Option Exercise Price at Final Lease Terms <i>(in millions)</i>	Guarantee Amount
Remaining six months of 2025	\$ 201	\$ 49	\$ 250
2026	406	113	519
2027	198	97	295
2028	83	93	176
2029	25	50	75
2030	4	24	28
Total guarantee obligations	<u>\$ 917</u>	<u>\$ 426</u>	<u>\$ 1,343</u>

The Company and Kioxia have agreed to mutually contribute to, and indemnify each other and Flash Ventures for, environmental remediation costs or liability resulting from Flash Ventures' manufacturing operations in certain circumstances. The Company has not made any indemnification payments, nor recorded any indemnification receivables, under any such agreements. As of December 27, 2024, no amounts have been accrued in the Condensed Consolidated Financial Statements with respect to these indemnification agreements.

#### *Unis Venture*

The Company has a venture with Unisplendour Corporation Limited and Unisoft (Wuxi) Group Co. Ltd. ("Unis"), referred to as the "Unis Venture", to market and sell the Company's products in China and to develop data storage systems for the Chinese market in the future. The Unis Venture is 49% owned by the Company and 51% owned by Unis. The Company accounts for its investment in the Unis Venture under the equity method of accounting. Revenue on products distributed by the Unis Venture is recognized upon sell through to third-party customers. For both the three and six months ended December 27, 2024, the Company recognized approximately 3% of its consolidated revenue on products distributed by the Unis Venture. For the three and six months ended December 29, 2023, the Company recognized approximately 4% and 3% of its consolidated revenue, respectively, on products distributed by the Unis Venture. The outstanding accounts receivable due from the Unis Venture were 6% and 7% of Accounts receivable, net as of both December 27, 2024 and June 28, 2024, respectively.

#### *Sale of a Majority Interest in a Subsidiary*

In connection with the Company's strategic decision to outsource the manufacturing of certain components and assemblies in its flash-based products, on September 28, 2024, the Company's wholly-owned subsidiary, SanDisk China Limited ("SanDisk China") completed the sale of 80% of its equity interest in SanDisk Semiconductor (Shanghai) Co. Ltd. ("SDSS"), the Company's indirect wholly-owned subsidiary in its Flash business that owned its Flash manufacturing facility, to JCET Management Co., Ltd. ("JCET"), a wholly-owned subsidiary of JCET Group Co., Ltd., a Chinese publicly listed company, thereby forming a venture between SanDisk China and JCET (the "Transaction"). The venture aims to provide independent semiconductor assembly, testing, and other related services in the People's Republic of China for customers including, but not limited to, the Company and its affiliates.

Proceeds from the sale, including working capital adjustments, are \$659 million pre-tax. On October 1, 2024, the Company received an initial pre-tax installment of \$262 million. On January 6, 2025, the Company received a second pre-tax installment of \$210 million and expects to receive remaining pre-tax proceeds of \$187 million in five installments of approximately \$37 million on September 28 of each year through September 28, 2029. As of December 27, 2024, the outstanding consideration receivable was recognized at its present value of \$370 million, with \$243 million within Other current assets and \$127 million within Other non-current assets in the Condensed Consolidated Balance Sheets. The present value discount of \$27 million as of December 27, 2024 will be accreted using the effective interest method to Interest income in the Condensed Consolidated Statements of Operations over the next five years.

**WESTERN DIGITAL CORPORATION**  
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The Company's 20% retained interest in SDSS was determined to be valued at \$158 million based on the fair value of the total pre-tax consideration received and receivable from JCET for its purchase of its 80% interest in SDSS. The Company accounts for its 20% interest in SDSS as an equity method investment within Other non-current assets in the Condensed Consolidated Balance Sheets. The Company's 20% interest in the earnings of SDSS will be recognized one quarter in arrears and will be reported in Other net income (expense), net in the Condensed Consolidated Statements of Operations.

The Transaction resulted in a pre-tax gain of \$113 million, calculated as the difference between the total consideration for the sale, including the outstanding consideration receivable and the fair value of the Company's 20% retained interest, less the carrying value of the net assets divested, which included, among other items, \$71 million of cash and cash equivalents and \$303 million of goodwill allocated to SDSS.

Subsequent to and in connection with the SDSS sale, the Company entered into a five-year Supply Agreement with SDSS to purchase certain flash-based products with a minimum annual commitment of \$550 million ("the minimum annual commitment"). The Supply Agreement contains specific penalties the Company must pay if SDSS's revenue fails to meet the minimum annual commitment. The Supply Agreement also provides that if SDSS's revenue is higher than the minimum annual commitment in any of the two years immediately succeeding any annual period where a shortfall penalty has been paid, SDSS shall reimburse the Company a true-up amount not exceeding the previously paid penalty amount. The Supply Agreement expires on September 28, 2029, and automatically renews for additional one-year terms unless earlier terminated by any of the parties. The Company also entered into an agreement to grant SDSS certain intellectual property rights on a royalty-free basis for use in manufacturing products on the Company's behalf for the term of and under the Supply Agreement. For the six months ended December 27, 2024, the Company made purchases of \$111 million under the Supply Agreement and had an account payable balance due to SDSS of \$117 million as of December 27, 2024.

The Company also entered into a Transaction Services Agreement ("TSA") to provide certain transitional services for one year following the closing of the Transaction. Charges under the TSA were not material.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 10. Leases and Other Commitments**
*Leases*

The Company leases certain domestic and international facilities and data center space under long-term, non-cancelable operating leases that expire at various dates through 2039. These leases include no material variable or contingent lease payments. Operating lease assets and liabilities are recognized based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. Operating lease assets also include prepaid lease payments minus any lease incentives. Extension or termination options present in the Company's lease agreements are included in determining the right-of-use asset and lease liability when it is reasonably certain the Company will exercise those options. Lease expense is recognized on a straight-line basis over the lease term.

The following table presents right-of-use lease assets and lease liabilities included in the Company's Condensed Consolidated Balance Sheets:

	December 27, 2024	June 28, 2024
	<i>(in millions)</i>	
Operating lease right-of-use assets (included in Other non-current assets)	\$ 321	\$ 326
Operating lease liabilities:		
Current portion of long-term operating lease liabilities (included in Accrued expenses)	45	42
Long-term operating lease liabilities (included in Other liabilities)	298	307
Total operating lease liabilities	<u>\$ 343</u>	<u>\$ 349</u>

The following table summarizes supplemental disclosures of operating cost and cash flow information related to operating leases:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions)</i>			
Cost of operating leases	\$ 17	\$ 17	\$ 33	\$ 31
Cash paid for operating leases	14	17	31	32
Operating lease assets obtained in exchange for operating lease liabilities	8	9	19	177

The weighted average remaining lease term and discount rate for the Company's operating leases were as follows:

	December 27, 2024	June 28, 2024
Weighted average remaining lease term in years	10.1	10.4
Weighted average discount rate	6.6 %	6.6 %

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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As of December 27, 2024, minimum lease payments were as follows:

	<b>Lease Amounts</b>
	<i>(in millions)</i>
Remaining six months of 2025	\$ 31
2026	63
2027	55
2028	44
2029	37
Thereafter	255
Total future minimum lease payments	485
Less: imputed interest	142
Present value of lease liabilities	\$ 343

*Sale-Leaseback*

In September 2023, the Company completed a sale and leaseback of its facility in Milpitas, California. The Company received net proceeds of \$191 million in cash and recorded a gain of \$85 million on the sale. In connection with the sale, the Company agreed to lease back the facility at an annual lease rate of \$16 million for the first year, increasing by 3% per year thereafter through January 1, 2039. The lease includes three 5-year renewal options and one 4-year renewal option for the ability to extend through December 2057. The supplemental balance sheet information and supplemental disclosures of operating cost and cash flow information related to the lease are included in the tables above.

*Purchase Agreements and Other Commitments*

In the normal course of business, the Company enters into purchase orders with suppliers for the purchase of components used to manufacture its products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, are recorded as a liability upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. The Company also enters into long-term agreements with suppliers that contain fixed future commitments, which are contingent on certain conditions such as performance, quality and technology of the vendor's components. As of December 27, 2024, the Company had the following minimum long-term commitments:

	<b>Long-Term Commitments</b>
	<i>(in millions)</i>
Remaining six months of 2025	\$ 112
2026	541
2027	613
2028	570
2029	570
Thereafter	660
Total	\$ 3,066

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 11. Shareholders' Equity and Convertible Preferred Stock**
*Stock-based Compensation Expense*

The following tables present the Company's stock-based compensation for equity-settled awards by type (i.e., restricted stock units ("RSUs"), restricted stock unit awards with performance conditions or market conditions ("PSUs"), and rights to purchase shares of common stock under the Company's Employee Stock Purchase Plan ("ESPP")) and financial statement line as well as the related tax benefit included in the Company's Condensed Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions)</i>			
RSUs and PSUs	\$ 71	\$ 68	\$ 143	\$ 133
ESPP	6	4	18	16
Total	<u>\$ 77</u>	<u>\$ 72</u>	<u>\$ 161</u>	<u>\$ 149</u>

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions)</i>			
Cost of revenue	\$ 12	\$ 13	\$ 26	\$ 26
Research and development	35	32	74	66
Selling, general and administrative	30	27	61	57
Subtotal	77	72	161	149
Tax benefit	(11)	(10)	(21)	(20)
Total	<u>\$ 66</u>	<u>\$ 62</u>	<u>\$ 140</u>	<u>\$ 129</u>

Any shortfalls or excess windfall tax benefits and tax deficiencies for shortfalls related to the vesting and exercise of stock-based awards, which are recognized as a component of the Company's Income tax expense, were immaterial for the periods presented.

Compensation cost related to unvested RSUs, PSUs, and rights to purchase shares of common stock under the ESPP are generally amortized on a straight-line basis over the remaining average service period. The following table presents the unamortized compensation cost and weighted average service period of all unvested outstanding awards as of December 27, 2024:

	Unamortized Compensation Costs	Weighted Average Service Period
	<i>(in millions)</i>	<i>(years)</i>
RSUs and PSUs <sup>(1)</sup>	\$ 554	2.4
ESPP	57	1.9
Total unamortized compensation cost	<u>\$ 611</u>	

<sup>(1)</sup> Weighted average service period assumes the performance conditions are met for the PSUs.

**WESTERN DIGITAL CORPORATION**  
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(Unaudited)

**Plan Activities***RSUs and PSUs*

The following table summarizes RSU and PSU activity under the Company's incentive plans:

	Number of Shares <i>(in millions)</i>	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value at Vest Date <i>(in millions)</i>
RSUs and PSUs outstanding at June 28, 2024	13.0	\$ 44.42	
Granted	4.1	62.72	
Vested	(4.1)	44.81	\$ 266
Forfeited	(0.5)	49.53	
RSUs and PSUs outstanding at December 27, 2024	<u>12.5</u>	<u>\$ 51.81</u>	

RSUs and PSUs are generally settled in an equal number of shares of the Company's common stock at the time of vesting of the units.

**Convertible Preferred Stock**

On January 31, 2023, the Board of Directors of the Company authorized the designation of 900,000 shares of Series A Convertible Perpetual Preferred Stock, par value \$0.01 per share (the "Preferred Shares"), from the Company's existing 5,000,000 authorized but unissued shares of preferred stock and issued the Preferred Shares through a private placement. As of December 27, 2024 and June 28, 2024, 235,000 of the Preferred Shares were outstanding.

The Preferred Shares have a stated value of \$1,000 per share and accrue a cumulative preferred dividend at an annual rate of 6.25% per annum (increasing to 7.25% per annum on January 31, 2030 and to 8.25% per annum on January 31, 2033) compounded on a quarterly basis. The Preferred Shares also participate in any dividends declared for common shareholders on an as-converted equivalent basis. No dividends have been declared or paid since the issuance of the Preferred Shares. As of December 27, 2024 and June 28, 2024, unpaid and cumulative dividends payable with respect to the Preferred Shares were \$30 million and \$22 million, respectively.

The Preferred Shares are convertible into shares of the Company's common stock at an initial conversion rate of \$47.75 per share (the "Conversion Price") (subject to anti-dilution adjustments and certain other one-time adjustments upon the occurrence of various specified spin-off transactions) applied to the aggregate sum of the stated value of the Preferred Shares plus any cumulative accrued but unpaid dividends. In the event of a standalone spin-off transaction, the holders of the Preferred Shares may have one third of their Preferred Shares converted to a similar class of preferred shares of the spin-off entity. The Preferred Shares will be convertible at the option of the Company after January 31, 2026 if the closing price per share of the Company's common stock exceeds 150% of the Conversion Price for at least 20 out of 30 consecutive trading days immediately prior to the Company's conversion notice.

As of December 27, 2024 and June 28, 2024, the Preferred Shares outstanding had an aggregate liquidation preference of \$265 million and \$257 million, respectively, and would have been convertible, if otherwise permitted, into approximately 6 million and 5 million shares of common stock, respectively, on each such date.

**WESTERN DIGITAL CORPORATION**  
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(Unaudited)

**Note 12. Income Tax Expense**

Beginning in fiscal year 2023, the Tax Cuts and Jobs Act requires the Company to capitalize and amortize R&D expenses rather than expensing them in the year incurred. The tax effects related to the capitalization of R&D expenses are included in the effective tax rate for the three and six months ended December 27, 2024 and December 29, 2023.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, which contained significant changes to laws related to tax, climate, energy, and health care. The tax measures include, among other things, a corporate alternative minimum tax (“CAMT”) of 15% on corporations with three-year average annual adjusted financial statement income (“AFSI”) exceeding \$1.0 billion. The CAMT was effective for the Company beginning with fiscal year 2024. The Company does not expect to be subject to CAMT for fiscal year 2025 as its average annual AFSI did not exceed \$1.0 billion for the preceding three-year period.

On December 20, 2021, the Organization for Economic Co-operation and Development G20 (“OECD/G20”) Inclusive Framework on Base Erosion and Profit Shifting released Model Global Anti-Base Erosion rules under Pillar Two. Several non-U.S. jurisdictions have either enacted legislation or announced their intention to enact future legislation to adopt certain or all components of Pillar Two, some of which are effective for the Company in fiscal year 2025. For fiscal year 2025, the Company currently expects to be able to meet certain transitional safe harbors and does not expect any material Pillar Two taxes. As more jurisdictions adopt this legislation in fiscal year 2026, there may be material increases in the Company’s future tax obligations in certain jurisdictions.

The following table presents the Company’s Income tax expense and the effective tax rate:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(\$ in millions)</i>			
Income (loss) before taxes	\$ 741	\$ (259)	\$ 1,369	\$ (941)
Income tax expense	147	28	282	31
Effective tax rate	20 %	(11)%	21 %	(3)%

The relative mix of earnings and losses by jurisdiction, the deduction for foreign-derived intangible income, credits, and tax holidays in Malaysia, the Philippines, and Thailand that have or will expire at various dates during years 2025 through 2031 resulted in decreases to the Company’s effective tax rate below the U.S. statutory rate for the three and six months ended December 27, 2024. However, the tax effects of the mandatory capitalization of R&D expenses offset these decreases, resulting in the Company’s effective tax rate being closer to the U.S. Federal statutory rate for the three and six months ended December 27, 2024.

The primary drivers of the difference between the effective tax rate for the three and six months ended December 29, 2023 and the U.S. Federal statutory rate of 21% are the relative mix of earnings and losses by jurisdiction, and the deduction for foreign-derived intangible income, credits, and tax holidays in Malaysia, the Philippines, and Thailand that will expire at various dates during years 2024 through 2031. In addition, the effective tax rate for the six months ended December 29, 2023 includes the discrete effect of a net decrease of \$30 million to the liability for unrecognized tax benefits, which includes interest and offsetting tax benefits, as a result of adjustments to align with IRS calculations.

*Uncertain Tax Positions*

With the exception of certain unrecognized tax benefits that are directly associated with the tax position taken, unrecognized tax benefits are presented gross in the Condensed Consolidated Balance Sheets.

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**(Unaudited)**

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits excluding accrued interest and penalties for the six months ended December 27, 2024 (in millions):

Accrual balance at June 28, 2024	\$	721
Gross increases related to current year tax positions		8
Gross increases related to prior year tax positions		4
Gross decreases related to prior year tax positions		(5)
Settlements		(39)
Lapse of statute of limitations		(1)
Accrual balance at December 27, 2024	\$	<u>688</u>

In addition to the amounts noted above, interest and penalties related to unrecognized tax benefits are recognized in liabilities recorded for uncertain tax positions and are recorded in the provision for income taxes. Accrued interest and penalties included in the Company's liability related to unrecognized tax benefits as of December 27, 2024 were \$72 million. Of the aggregate unrecognized tax benefits, including interest and penalties, as of December 27, 2024, approximately \$594 million could result in potential cash payments. The Company is not able to provide a reasonable estimate of the timing of future tax payments related to these obligations.

The Company had previously reached a final agreement with the IRS regarding notices of deficiency with respect to years 2008 through 2012 and in February 2024 also reached a final agreement for resolving the notices of proposed adjustments with respect to years 2013 through 2015. During the six months ended December 27, 2024, the Company made a payment of \$130 million for interest with respect to years 2008 through 2012 and \$32 million for tax and interest with respect to years 2013 through 2015, resulting in no remaining liability as of December 27, 2024 related to all years from 2008 through 2015.

In connection with settlements for the years 2008 through 2015, the Company expects to realize reductions to its mandatory deemed repatriation tax obligations and tax savings from interest deductions in future years aggregating to approximately \$166 million. Of this amount, \$65 million of the interest savings from the interest paid with respect to years 2008 through 2015 is classified as a deferred tax asset due to interest expense limitation rules.

The Company believes that adequate provision has been made for any adjustments that may result from any other tax examinations. However, the outcome of such tax examinations cannot be predicted with certainty. If any issues addressed in the Company's tax examinations are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. As of December 27, 2024, with the exception of the IRS matter discussed above, it was not possible to estimate the amount of change, if any, in the unrecognized tax benefits that is reasonably possible within the next twelve months. Any significant change in the amount of the Company's liability for unrecognized tax benefits would most likely result from additional information or settlements relating to the examination of the Company's tax returns.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 13. Net Income (Loss) Per Common Share**

The following table presents the computation of basic and diluted income (loss) per common share:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions, except per share data)</i>			
Net income (loss)	\$ 594	\$ (287)	\$ 1,087	\$ (972)
Less: dividends allocated to preferred shareholders	4	14	8	29
Less: income attributable to participating securities <sup>(1)</sup>	9	—	17	—
Net income (loss) attributable to common shareholders	581	(301)	1,062	(1,001)
Re-allocation of participating securities considered potentially dilutive securities	—	—	1	—
Diluted net income (loss) attributable to common shareholders	\$ 581	\$ (301)	\$ 1,063	\$ (1,001)
Weighted average shares outstanding:				
Basic	346	325	345	324
RSUs, PSUs, ESPP, and the convertible notes	11	—	12	—
Diluted	357	325	357	324
Net income (loss) per common share				
Basic	\$ 1.68	\$ (0.93)	\$ 3.08	\$ (3.09)
Diluted	\$ 1.63	\$ (0.93)	\$ 2.98	\$ (3.09)
Anti-dilutive potential common shares excluded	—	14	—	14

<sup>(1)</sup> Preferred stock represents participating securities because they participate in any dividends on shares of common stock on a pari passu, pro rata basis. Preferred stock does not participate in undistributed net losses.

Basic net income (loss) per share attributable to common shareholders is computed using (i) net income (loss) less (ii) dividends allocated to preferred shareholders less (iii) net income (loss) attributable to participating securities divided by (iv) weighted average basic shares outstanding. Diluted net income or loss per share attributable to common shareholders is computed as (i) basic net income (loss) attributable to common shareholders plus (ii) diluted adjustments to income allocable to participating securities divided by (iii) weighted average diluted shares outstanding. The “if-converted” method is used to determine the dilutive impact for the convertible notes and the preferred shares. The treasury stock method is used to determine the dilutive impact of unvested equity awards.

Potentially dilutive common shares include dilutive outstanding employee stock options, RSUs and PSUs, rights to purchase shares of common stock under the Company’s ESPP, shares issuable in connection with the Company’s convertible notes, and the preferred shares. For the three months and six months ended December 27, 2024, all common shares subject to outstanding equity awards are included in the calculation of diluted shares based on the Company’s average stock price during the period. For the three months and six months ended December 29, 2023, the Company recorded a net loss, and all shares subject to outstanding equity awards were excluded from the calculation of diluted shares for those periods because their impact would have been anti-dilutive.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 14. Employee Termination, Asset Impairment and Other**
*Business Realignment*

The Company periodically incurs charges to realign its operations with anticipated market demand, primarily consisting of organization rationalization designed to streamline its business, reduce its cost structure, and focus its resources. The Company may also record credits related to gains upon sale of property in connection with these activities. In this regard, for the six months ended December 29, 2023, the Company reassessed existing capacity development plans and made a decision to cancel certain projects, including projects to expand capacity in its Penang, Malaysia facility, resulting in the impairment of existing construction in progress, other assets and the recognition of a liability for certain contract termination costs. The Company also took actions to reduce the amount of capital invested in facilities, including the sale-leaseback of its facility in Milpitas, California in September 2023 as discussed in Note 10, *Leases and Other Commitments*.

The Company recorded the following net charges related to these actions for the periods presented:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>(in millions)</i>			
Employee termination benefits	\$ 2	\$ 24	\$ 2	\$ 43
Asset impairments	—	—	—	94
Other charges (gains):				
Recovery of non-cancellable PO	(9)	—	(9)	—
Contract termination and other	—	—	2	29
Gain on sale-leaseback of facility	—	—	—	(85)
Total employee termination, asset impairment and other	\$ (7)	\$ 24	\$ (5)	\$ 81

The following table presents an analysis of the components of these activities against the reserve (included in Accrued expenses) during the six months ended December 27, 2024:

	Employee Termination Benefits	Contract Termination and Other	Total
		<i>(in millions)</i>	
Accrual balance at June 28, 2024	\$ —	\$ 28	\$ 28
Charges	2	2	4
Cash payments	—	(5)	(5)
Recovery of non-cancellable PO	—	(9)	(9)
Accrual balance at December 27, 2024	\$ 2	\$ 16	\$ 18

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 15. Supplier Finance Program**

The Company maintains a voluntary supplier finance program that provides participating suppliers with enhanced receivable options. The program allows participating suppliers of the Company, at their sole discretion and cost, to sell their receivables due from the Company to a third-party financial institution and receive early payment at terms negotiated between the supplier and the third-party financial institution. The Company's vendor payment terms and amounts are not impacted by a supplier's decision to participate in this program.

The Company's current payment terms with its suppliers under these programs generally range from 60 to 90 days. The Company does not provide any guarantees to any third parties and no assets are pledged in connection with the arrangements.

The Company's outstanding payment obligations to vendors eligible to participate under its supplier finance program were \$37 million and \$37 million as of December 27, 2024 and June 28, 2024, respectively, and are included within Accounts payable on the Company's Condensed Consolidated Balance Sheets.

**WESTERN DIGITAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 16. Legal Proceedings***Tax*

For disclosures regarding the status of statutory notices of deficiency issued by the IRS with regard to tax years 2008 through 2015, see Note 12, *Income Tax Expense*.

*Intellectual Property Litigation*

On August 26, 2022, MR Technologies, GmbH (“MRT”) filed an action in the United States District Court for the Central District of California (the “Central District Court”) against the Company’s wholly-owned subsidiary, Western Digital Technologies, Inc., alleging infringement of U.S. Patent Nos. 9,978,413, 9,928,864, 11,133,031 and 11,138,997, each of which relate to hard disk drive media. As the case progressed, MRT dropped its claims with respect to U.S. Patent Nos. 9,978,413 and 11,133,031, and the case proceeded to trial in July 2024 on the remaining two patents (together, the “MRT Patents”). The trial concluded on July 26, 2024, and the jury awarded MRT a lump sum of \$262 million for use of the MRT Patents in the past and through their remaining lives. MRT also requested and was awarded prejudgment interest totaling \$117 million in a judgment entered on August 15, 2024. In addition, MRT requested attorney’s fees and post-judgment interest.

In the fourth quarter of fiscal year 2024, the Company recognized an aggregate liability for this matter of \$384 million with \$291 million recognized as an Operating expense under Litigation matter for the year ended June 28, 2024 and \$93 million recognized as Other non-current assets for the patent licenses, to be amortized over their remaining lives. During the three and six months ended December 27, 2024, the Company recognized incremental charges of \$0 and \$3 million, respectively, related to plaintiff’s attorney’s fees in Operating expense under Litigation matter; \$4 million and \$6 million, respectively, of post-judgment interest in Other income (expense), net; and \$10 million and \$19 million, respectively, in Cost of revenue from the amortization of licenses related to this matter. The Company believes it has meritorious defenses, has filed post-trial motions, and if not successful, plans to appeal the judgment and continue to defend itself vigorously.

On September 28, 2016, SPEX Technologies, Inc. (“SPEX”) filed a lawsuit in the Central District Court against the Company and two of the Company’s current or former wholly-owned subsidiaries, Western Digital Technologies, Inc. and HGST Inc., alleging infringement of U.S. Patent Nos. 6,088,802 and 6,003,135, both of which allegedly relate to moving a security mechanism (e.g., the encrypting/decrypting mechanism) from a host computer or a separate device to a peripheral device that provides data storage. As the case progressed, SPEX dismissed its allegations relating to U.S. Patent No. 6,003,135 and narrowed its case to one claim under U.S. Patent No. 6,088,802 asserted against certain HDD products that may include certain encryption capabilities. The trial commenced on October 8, 2024, and concluded on October 18, 2024, and the jury awarded SPEX damages of \$316 million for the use of one claim related to U.S. Patent No. 6,088,802 in the past, prior to its expiration in 2017. On January 8, 2025, the Court entered judgment for SPEX in accordance with the verdict and also awarded SPEX prejudgment interest of \$237 million and legal costs. The Company intends to contest the verdict and, based on available arguments, the Company believes the jury verdict and the prejudgment interest and legal costs will be reversed, amended or vacated when the Company files motions for judgment as a matter of law in the district court or presents its appeal to the United States Court of Appeals for the Federal Circuit, if necessary. The Company therefore believes a loss is not probable and has not accrued a liability as a result of the jury verdict or the entry of judgment in its financial statements as of December 27, 2024.

The ability to predict the ultimate outcome of these matters involves judgments, estimates and inherent uncertainties. The actual outcome of these matters could differ materially from management’s estimates.

*Other Matters*

In the normal course of business, the Company is subject to legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of probable monetary liability or financial impact with respect to these other matters is subject to many uncertainties, management believes that any monetary liability or financial impact to the Company from these matters, individually and in the aggregate, would not be material to the Company’s financial condition, results of operations or cash flows. However, any monetary liability and financial impact to the Company from these matters could differ materially from management’s expectations.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws, and should be read in conjunction with the disclosures we make concerning risks and other factors that may affect our business and operating results. You should read this information in conjunction with the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited Consolidated Financial Statements and notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended June 28, 2024. See also “Forward-Looking Statements” immediately prior to Part I, Item 1 in this Quarterly Report on Form 10-Q.

Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters. As used herein, the terms “we,” “us,” “our,” and the “Company” refer to Western Digital Corporation and its subsidiaries.

### **Our Company**

We are a leading developer, manufacturer, and provider of data storage devices and solutions based on both hard disk drive and NAND flash technologies. With a differentiated innovation engine driving advancements in storage and semiconductor technologies, our broad and ever-expanding portfolio delivers powerful hard disk drives (“HDD”) and flash-based products (“Flash”) solutions for everyone from students, gamers, and home offices to the largest enterprises and public clouds to capture, preserve, access, and transform an ever-increasing diversity of data.

Our broad portfolio of technology and products addresses our multiple end markets: “Cloud,” “Client,” and “Consumer”. Cloud is comprised primarily of products for public or private cloud environments and enterprise customers. Through the Client end market, we provide our original equipment manufacturer “OEM” and channel customers a broad array of high-performance HDD and Flash solutions across personal computer, mobile, gaming, automotive, virtual reality headsets, at-home entertainment, and industrial spaces. The Consumer end market is highlighted by our broad range of retail and other end-user products, which capitalize on the strength of our product brand recognition and vast points of presence around the world.

Our fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Approximately every five to six years, we report a 53-week fiscal year to align the fiscal year with the foregoing policy. Fiscal year 2025, which will end on June 27, 2025, and fiscal year 2024, which ended on June 28, 2024, are each comprised of 52 weeks, with all quarters presented consisting of 13 weeks.

### **Key Developments**

#### *Separation of Business Units*

On October 30, 2023, we announced that our Board of Directors had completed its strategic review of our business and, after evaluating a comprehensive range of alternatives, authorized us to pursue a plan to separate our HDD and Flash business units to create two independent, public companies, with Sandisk Corporation, currently a wholly owned subsidiary of the Company, holding our Flash business, and Western Digital focusing on our existing HDD business. We believe the separation will better position each business unit to execute innovative technology and product development, capitalize on unique growth opportunities, extend respective leadership positions, and operate more efficiently with distinct capital structures. At the beginning of our second quarter of fiscal year 2025, we entered the soft-spin phase of our separation plan. The soft-spin phase represents the period when we begin testing critical processes and systems for each future HDD and Flash company to ensure that both are ready to operate independently at legal separation. We continue to make progress on the work required to execute the separation. The separation will be effected through a pro rata distribution of 80.1% of the outstanding shares of Sandisk Corporation to holders of the Company’s common stock as of February 12, 2025, the record date for the distribution. We expect the distribution to occur on or about February 21, 2025. However, completion of the planned separation is subject to certain conditions, and no assurance can be provided as to the timing of the distribution or that all conditions to the distribution will be met.

### *Operational Update*

Macroeconomic factors such as inflation, changes in interest rates, and recession concerns softened demand for our products during the first half of 2024. As a result, we and our industry experienced a supply-demand imbalance, which resulted in reduced shipments and negatively impacted pricing during those periods. To adapt to these conditions, we implemented measures to reduce operating expenses and proactively manage supply and inventory to align with demand and improve our capital efficiency while continuing to deploy innovative products. These actions enabled us to scale back on capital expenditures, consolidate production lines, and reduce production, which resulted in incremental charges for employee termination, asset impairment, and charges for unabsorbed manufacturing overhead costs in HDD and Flash due to the underutilization of facilities as we temporarily scaled back production.

We have seen an improvement in the supply and demand dynamic in HDD, leading to improved revenues in the first half of fiscal 2025 from the comparable period in the prior year. However, in Flash, we are experiencing what we believe is a mid-cycle slowdown. We expect to incur charges for unabsorbed manufacturing overhead costs as a result of the reduced utilization of our manufacturing capacity in the remainder of fiscal 2025 as we moderate production levels to align with demand in Flash. We anticipate that digital transformation, including the artificial intelligence data-cycle, will drive improved market conditions in both HDD and Flash in the long term.

We will continue to actively monitor developments impacting our business and may take additional responsive actions that we determine to be in the best interest of our business and stakeholders.

### *Sale of a Majority Interest in a Subsidiary*

As discussed in Part I, Item 1, Note 9, *Related Parties and Related Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, on September 28, 2024, our wholly-owned subsidiary, SanDisk China Limited (“SanDisk China”) completed the sale of 80% of its equity interest in SanDisk Semiconductor (Shanghai) Co. Ltd. (“SDSS”), our indirect wholly-owned subsidiary in our Flash business that owned our Flash manufacturing facility, to JCET Management Co., Ltd. (“JCET”), a wholly-owned subsidiary of JCET Group Co., Ltd., a Chinese publicly listed company, thereby forming a venture between SanDisk China and JCET. The transaction resulted in a pre-tax gain of \$113 million.

Subsequent to and in connection with the SDSS sale, we entered into a five-year Supply Agreement with SDSS to purchase certain flash-based products with a minimum annual commitment of \$550 million. As a result of this transaction, we expect to incur a modest reduction in annual operating expenses and a reduction in annual capital expenditures related to assembly and testing of flash-based products. We also anticipate that the transition to a contract manufacturing model through SDSS will result in a small increase in our annual cost of revenue for flash-based products.

### *Tax Resolution*

As previously disclosed, we had previously reached a final agreement with the IRS and received notices of deficiency with respect to years 2008 through 2012 and in February 2024, also reached a final agreement for resolving the notices of proposed adjustments with respect to years 2013 through 2015. During the six months ended December 27, 2024, we made payments aggregating \$162 million for tax and interest with respect to years 2008 through 2015 and have no remaining liability as of December 27, 2024 related to all years from 2008 through 2015. Additional information regarding these settlements and our assessment of the potential tax and interest payments we expect to pay in connection with the settlements is provided in our discussion of Income tax expense in our “Results of Operations” below, as well as in Part I, Item 1, Note 12, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and in the “Short- and Long-term Liquidity – *Unrecognized Tax Benefits*” section below.

## Results of Operations

### Second Quarter and First Half Overview

The following table sets forth, for the periods presented, selected summary information from our Condensed Consolidated Statements of Operations by dollars and percentage of net revenue<sup>(1)</sup>:

	December 27, 2024		Three Months Ended December 29, 2023		\$ Change	% Change
	<i>\$ in millions</i>					
Revenue, net	\$ 4,285	100.0 %	\$ 3,032	100.0 %	\$ 1,253	41 %
Cost of revenue	2,769	64.6	2,540	83.8	229	9
Gross profit	1,516	35.4	492	16.2	1,024	208
Operating expenses:						
Research and development	502	11.7	444	14.6	58	13
Selling, general and administrative	238	5.6	198	6.5	40	20
Gain on business divestiture	(113)	(2.6)	—	—	(113)	n/a
Business separation costs	44	1.0	36	1.2	8	22
Employee termination, asset impairment and other	(7)	(0.2)	24	0.8	(31)	(129)
Total operating expenses	664	15.5	702	23.2	(38)	(5)
Operating income (loss)	852	19.9	(210)	(6.9)	1,062	506
Interest and other expense:						
Interest income	11	0.3	12	0.4	(1)	(8)
Interest expense	(95)	(2.2)	(108)	(3.6)	13	(12)
Other income (expense), net	(27)	(0.6)	47	1.6	(74)	(157)
Total interest and other expense, net	(111)	(2.6)	(49)	(1.6)	(62)	127
Income (loss) before taxes	741	17.3	(259)	(8.5)	1,000	386
Income tax expense	147	3.4	28	0.9	119	425
Net income (loss)	594	13.9	(287)	(9.5)	881	307
Less: dividends allocated to preferred shareholders	4	0.1	14	0.5	(10)	(71)
Less: income attributable to preferred shareholders	9	0.2	—	—	9	n/a
Net income (loss) attributable to common shareholders	\$ 581	13.6 %	\$ (301)	(9.9)%	\$ 882	293 %

<sup>(1)</sup> Percentages may not total due to rounding.

	Six Months Ended					
	December 27, 2024		December 29, 2023		\$ Change	% Change
	<i>\$ in millions</i>					
Revenue, net	\$ 8,380	100.0 %	\$ 5,782	100.0 %	\$ 2,598	45 %
Cost of revenue	5,313	63.4	5,191	89.8	122	2
Gross profit	<u>3,067</u>	36.6	<u>591</u>	10.2	2,476	419
Operating expenses:						
Research and development	1,021	12.2	875	15.1	146	17
Selling, general and administrative	480	5.7	405	7.0	75	19
Gain on business divestiture	(113)	(1.3)	—	—	(113)	n/a
Business separation costs	87	1.0	36	0.6	51	142
Litigation matter	3	—	—	—	3	n/a
Employee termination, asset impairment and other	(5)	(0.1)	81	1.4	(86)	(106)
Total operating expenses	<u>1,473</u>	17.6	<u>1,397</u>	24.2	76	5
Operating income (loss)	1,594	19.0	(806)	(13.9)	2,400	298
Interest and other expense:						
Interest income	20	0.2	20	0.3	—	—
Interest expense	(194)	(2.3)	(206)	(3.6)	12	(6)
Other income (expense), net	(51)	(0.6)	51	0.9	(102)	(200)
Total interest and other expense, net	<u>(225)</u>	(2.7)	<u>(135)</u>	(2.3)	(90)	67
Income (loss) before taxes	1,369	16.3	(941)	(16.3)	2,310	245
Income tax expense	282	3.4	31	0.5	251	810
Net income (loss)	1,087	13.0	(972)	(16.8)	2,059	212
Less: dividends allocated to preferred shareholders	8	0.1	29	0.5	(21)	(72)
Less: income attributable to preferred shareholders	17	0.2	—	—	17	n/a
Net income (loss) attributable to common shareholders	<u>\$ 1,062</u>	12.7 %	<u>\$ (1,001)</u>	(17.3)%	\$ 2,063	206 %

<sup>(1)</sup> Percentages may not total due to rounding.

The following table sets forth, for the periods presented, a summary of our segment information:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
<i>\$ in millions</i>				
<b>Net revenue:</b>				
HDD	\$ 2,409	\$ 1,367	\$ 4,620	\$ 2,561
Flash	1,876	1,665	3,760	3,221
Total net revenue	<u>\$ 4,285</u>	<u>\$ 3,032</u>	<u>\$ 8,380</u>	<u>\$ 5,782</u>
<b>Gross profit:</b>				
HDD	\$ 929	\$ 339	\$ 1,772	\$ 612
Flash	609	131	1,341	(30)
<b>Unallocated corporate items:</b>				
Stock-based compensation expense	(12)	(13)	(26)	(26)
Amortization of licenses related to a litigation matter	(10)	—	(19)	—
Amortization of acquired intangible assets	—	(1)	(1)	(1)
Recovery from contamination incident	—	36	—	36
Total unallocated corporate items	<u>(22)</u>	<u>22</u>	<u>(46)</u>	<u>9</u>
Consolidated gross profit	<u>\$ 1,516</u>	<u>\$ 492</u>	<u>\$ 3,067</u>	<u>\$ 591</u>
<b>Gross margin:</b>				
HDD	38.6 %	24.8 %	38.4 %	23.9 %
Flash	32.5 %	7.9 %	35.7 %	(0.9)%
Consolidated gross margin	35.4 %	16.2 %	36.6 %	10.2 %

The following table sets forth for the periods presented, summary information regarding our disaggregated revenue:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
<i>(in millions)</i>				
<b>Revenue by end market</b>				
Cloud	\$ 2,346	\$ 1,071	\$ 4,554	\$ 1,943
Client	1,168	1,122	2,377	2,269
Consumer	771	839	1,449	1,570
Total revenue	<u>\$ 4,285</u>	<u>\$ 3,032</u>	<u>\$ 8,380</u>	<u>\$ 5,782</u>
<b>Revenue by geography</b>				
Asia	\$ 1,995	\$ 1,699	\$ 3,832	\$ 3,250
Americas	1,428	804	3,118	1,466
Europe, Middle East and Africa	862	529	1,430	1,066
Total revenue	<u>\$ 4,285</u>	<u>\$ 3,032</u>	<u>\$ 8,380</u>	<u>\$ 5,782</u>

## Net Revenue

### *Comparison of Three and Six Months Ended December 27, 2024 to Three and Six Months Ended December 29, 2023*

The increase in consolidated net revenue for the three and six months ended December 27, 2024 from the comparable periods in the prior year reflected increases in both HDD and Flash revenue as discussed in more detail below.

HDD revenue increased by 76% for the three months ended December 27, 2024 from the comparable period in the prior year, as a result of a 93% increase in exabytes sold, primarily from higher shipments of our high capacity enterprise drives, partially offset by an 8% decline in average selling prices per gigabyte primarily due to a shift in the product mix to larger capacity drives. HDD revenue increased by 80% for the six months ended December 27, 2024 from the comparable period in the prior year, as a result of a 99% increase in exabytes sold, partially offset by a 9% decline in average selling prices per gigabyte, driven by the same factors described for the three-month period.

Flash revenue increased by 13% for the three months ended December 27, 2024 from the comparable period in the prior year, reflecting a 14% increase in average selling prices per gigabyte primarily due to improved pricing as the supply-demand balance improved. Flash revenue increased by 17% for the six months ended December 27, 2024 from the comparable period in the prior year, resulting from a 26% increase in average selling prices per gigabyte, partially offset by a 7% decline in exabytes sold. The increase in average selling prices per gigabyte was attributable to the same factors described above for the three-month period while the decrease in exabytes sold for the period was driven by softer demand in the Client and Consumer end markets in the first three months of the year.

Cloud revenue increased by 119% for the three months ended December 27, 2024 from the comparable period in the prior year, reflecting a 114% increase in exabytes sold and a 4% increase in average selling prices per gigabyte. The increase in exabytes sold was driven by higher shipments of our high capacity enterprise HDD products stemming from new data center builds. The increase in average selling prices per gigabyte was primarily due to improved pricing in Flash as the supply-demand balance improved. Cloud revenue increased by 134% for the six months ended December 27, 2024 from the comparable period in the prior year, reflecting a 126% increase in exabytes sold and a 5% increase in average selling prices per gigabyte. The increase in exabytes sold and average selling prices per gigabyte are attributed to the same factors described for the three-month period.

Client revenue increased by 4% for the three months ended December 27, 2024 from the comparable period in the prior year, reflecting a 15% increase in average selling prices per gigabyte, partially offset by an 11% decrease in exabytes sold. The increase in average selling prices per gigabyte over the prior year period was primarily due to improved pricing in Flash, partially offset by a decline in pricing in HDD. The decline in exabytes sold reflected a near-term drop in demand for Flash products. Client revenue increased by 5% for the six months ended December 27, 2024 from the comparable period in the prior year, reflecting a 24% increase in average selling prices per gigabyte, partially offset by a 16% decrease in exabytes sold. The increase in average selling prices per gigabyte and the decline in exabytes sold over the prior year are attributed to the same factors described for the three-month period.

Consumer revenue declined by 8% for the three months ended December 27, 2024 from the comparable period in the prior year, reflecting a 5% decrease in exabytes sold and a 3% decline in average selling prices per gigabyte, which were driven by softer demand and pricing declines in both HDD and Flash products. Consumer revenue declined by 8% for the six months ended December 27, 2024 from the comparable period in the prior year, reflecting a 10% decrease in exabytes sold, partially offset by a 3% increase in average selling prices per gigabyte. The decrease in exabytes sold was primarily driven by softer demand in both HDD and Flash products in this end market. The increase in average selling prices per gigabyte was primarily due to improved pricing in both HDD and Flash from the improvement in the supply-demand balance in the first quarter of the year.

The changes in net revenue by geography for the three and six months ended December 27, 2024 from the comparable period in the prior year reflected higher revenue in the Americas region from Cloud customers as noted above.

Our top 10 customers accounted for 51% and 50% of our net revenue for the three and six months ended December 27, 2024, respectively, compared to 39% of our net revenue for both the three and six months ended December 29, 2023. For the three and six months ended December 27, 2024, one customer accounted for 14% of our net revenue. For the three and six months ended December 29, 2023, no single customer accounted for 10% or more of our net revenue.

Consistent with standard industry practice, we have sales incentive and marketing programs that provide customers with price protection and other incentives or reimbursements that are recorded as a reduction to gross revenue. These programs represented 15% and 14% of gross revenue for the three and six months ended December 27, 2024 and 18% and 19% for the three and six months ended December 29, 2023, respectively. The amounts attributed to our sales incentive and marketing programs generally vary according to several factors, including industry conditions, list pricing strategies, seasonal demand, competitor actions, channel mix, and overall availability of products. The decrease in program amounts in the current period reflects the improved demand and pricing environment. Changes in future customer demand and market conditions may require us to adjust our incentive programs as a percentage of gross revenue.

#### *Gross Profit and Gross Margin*

Consolidated gross profit increased by \$1.02 billion for the three months ended December 27, 2024 from the comparable period in the prior year, primarily due to higher product shipments, improved pricing, and favorable product mix. In addition, the prior year period included charges for unabsorbed manufacturing overhead costs as a result of the reduced utilization of our manufacturing capacity of \$156 million (\$49 million in HDD and \$107 million in Flash), which were not incurred in the current period. Consolidated gross margin increased by 19 percentage points year over year, mainly due to improved pricing and favorable product mix with approximately 5 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

HDD gross margin for the three months ended December 27, 2024 increased by approximately 14 percentage points year over year, primarily due to higher product shipments with approximately 4 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

Flash gross margin for the three months ended December 27, 2024 increased by approximately 25 percentage points year over year, primarily due to improved pricing and favorable product mix with approximately 6 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

Consolidated gross profit increased by \$2.48 billion for the six months ended December 27, 2024 from the comparable period in the prior year, primarily due to higher product shipments, improved pricing, and favorable product mix. In addition, the prior year period included charges for unabsorbed manufacturing overhead costs as a result of the reduced utilization of our manufacturing capacity of \$381 million (\$132 million in HDD and \$249 million in Flash), which were not incurred in the current period. Consolidated gross margin increased by approximately 26 percentage points year over year, mainly due to improved pricing and favorable product mix with approximately 7 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

HDD gross margin for the six months ended December 27, 2024 increased by approximately 15 percentage points year over year, primarily due to higher product shipments with approximately 5 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

Flash gross margin for the six months ended December 27, 2024 increased by approximately 37 percentage points year over year, primarily due to improved pricing and favorable product mix with approximately 8 percentage points of the increase due to the unabsorbed manufacturing overhead costs incurred in the prior year period but not incurred in the current period.

#### *Operating Expenses*

Research and development (“R&D”) expense increased by \$58 million for the three months ended December 27, 2024 from the comparable period in the prior year. The increase was driven by a \$39 million increase in compensation and benefits due to higher variable compensation and increased headcount and modest increases in spending for R&D projects as we continue to invest in innovation. R&D expense increased by \$146 million for the six months ended December 27, 2024 from the comparable period in the prior year. The increase was primarily driven by a \$95 million increase in compensation and benefits due to the same factors as the three-month period and a \$36 million increase in material purchases, outside services, hardware and equipment spending due to an increase in spending for R&D projects as we continue to invest in innovation.

Selling, general and administrative (“SG&A”) expense increased by \$40 million for the three months ended December 27, 2024 from the comparable period in the prior year. The increase was primarily driven by a \$27 million increase in compensation and benefits, which was driven by higher variable compensation and increased headcount, a \$9 million increase in legal fees, and a \$5 million increase in material purchases, partially offset by a \$20 million decrease in strategic review costs. SG&A expense increased by \$75 million for the six months ended December 27, 2024 from the comparable period in the prior year. The increase was primarily driven by a \$53 million increase in compensation and benefits, which was driven by higher variable compensation and increased headcount, a \$19 million increase in legal fees, a \$12 million increase in material purchases, and a modest increase in spending due to higher business volume, partially offset by a \$37 million decrease in strategic review costs.

The gain on business divestiture was \$113 million for both the three and six months ended December 27, 2024, which resulted from our sale of a majority interest in SDSS. For information regarding Gain on business divestiture, see Part I, Item 1, Note 9, *Related Parties and Related Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Employee termination, asset impairment and other was a gain of \$7 million for the three months ended December 27, 2024 compared to a loss of \$24 million in the prior year. The change was primarily due to a recovery from previously accrued contract termination charges and fewer restructuring actions taken in the current period. Employee termination, asset impairment and other was a gain of \$5 million for the six months ended December 27, 2024 compared to a loss of \$81 million in the prior year. The change was due to fewer restructuring actions taken in the current period. For information regarding Employee termination, asset impairment and other, see Part I, Item 1, Note 14, *Employee Termination, Asset Impairment and Other*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Business separation costs increased by \$8 million for the three months ended December 27, 2024 and by \$51 million for the six months ended December 27, 2024 from the comparable periods in the prior year. The increases for the three- and six-month periods primarily reflected the increase in outside service fees to support the planned separation of our HDD and Flash businesses.

#### *Interest and Other Expense*

Total interest and other expense, net increased by \$62 million for the three months ended December 27, 2024 from the comparable period in the prior year, reflecting a decrease in other income, net of \$74 million, driven by a \$62 million decrease in gains on our strategic investments. Total interest and other expense, net increased by \$90 million for the six months ended December 27, 2024 from the comparable period in the prior year, primarily reflecting a decrease in other income, net of \$102 million, driven by a \$59 million decrease in gains on our strategic investments and a \$24 million increase in foreign exchange transaction losses.

#### *Income Tax Expense*

Beginning in 2023, the Tax Cuts and Jobs Act (the “2017 Act”) has required us to capitalize and amortize R&D expenses rather than expensing them in the year incurred. The tax effects related to the capitalization of R&D expenses are included in our effective tax rate for the three and six months ended December 27, 2024 and December 29, 2023. The tax effects related to the capitalization of R&D expenses had a material impact on our effective tax rate for the three and six months ended December 27, 2024 but did not have a material impact on the effective tax rate for the three and six months ended December 29, 2023.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, which contained significant changes to laws related to tax, climate, energy, and health care. The tax measures include, among other things, a Corporate Alternative Minimum Tax (“CAMT”) of 15% on corporations with three-year average annual adjusted financial statement income (“AFSI”) exceeding \$1.0 billion. The CAMT is effective for us beginning with fiscal year 2024. We do not expect to be subject to the CAMT of 15% for fiscal year 2025 as our annual average AFSI did not exceed \$1.0 billion for the preceding three-year period.

On December 20, 2021, the Organization for Economic Co-operation and Development G20 (“OECD/G20”) Inclusive Framework on Base Erosion and Profit Shifting released Model Global Anti-Base Erosion rules under Pillar Two. Several non-U.S. jurisdictions have either enacted legislation or announced their intention to enact future legislation to adopt certain or all components of the Pillar Two, some of which are effective for us in fiscal year 2025. For fiscal year 2025, we currently expect to be able to meet certain transitional safe harbors and do not expect any material Pillar Two taxes. As more jurisdictions adopt this legislation in fiscal year 2026, there may be material increases in our future tax obligations in certain jurisdictions.

The following table sets forth Income tax information from our Condensed Consolidated Statements of Operations by dollar and effective tax rate:

	Three Months Ended		Six Months Ended	
	December 27, 2024	December 29, 2023	December 27, 2024	December 29, 2023
	<i>\$ in millions</i>			
Income (loss) before taxes	\$ 741	\$ (259)	\$ 1,369	\$ (941)
Income tax expense	147	28	282	31
Effective tax rate	20%	(11)%	21%	(3)%

The relative mix of earnings and losses by jurisdiction, the deduction for foreign-derived intangible income, credits, and tax holidays in Malaysia, the Philippines and Thailand that have or will expire at various dates during years 2025 through 2031 resulted in decreases to our effective tax rate below the U.S. Federal statutory rate for the three and six months ended December 27, 2024. However, the tax effects of the mandatory capitalization of R&D expenses offset these decreases, resulting in our effective tax rate being closer to the U.S. Federal statutory rate for the three and six months ended December 27, 2024.

The primary drivers of the difference between the effective tax rate for the three and six months ended December 29, 2023 and the U.S. Federal statutory rate of 21% were the relative mix of earnings and losses by jurisdiction, the deduction for foreign-derived intangible income, credits, and tax holidays in Malaysia, the Philippines and Thailand that will expire at various dates during years 2024 through 2031. In addition, the effective tax rate for the six months ended December 29, 2023 includes the discrete effect of a net decrease of \$30 million to the liability for unrecognized tax benefits, which includes interest and offsetting tax benefits, as a result of adjustments to align with IRS calculations.

For additional information regarding Income tax expense, see Part I, Item 1, Note 12, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

**Liquidity and Capital Resources**

The following table summarizes our statements of cash flows:

	Six Months Ended	
	December 27, 2024	December 29, 2023
	<i>(in millions)</i>	
Net cash provided by (used in):		
Operating activities	\$ 437	\$ (718)
Investing activities	78	24
Financing activities	(103)	1,151
Effect of exchange rate changes on cash	—	1
Net increase in cash and cash equivalents	<u>\$ 412</u>	<u>\$ 458</u>

We had previously reached a final agreement with the IRS and received notices of deficiency with respect to years 2008 through 2012 and in February 2024 also reached a final agreement for resolving the notices of proposed adjustments with respect to years 2013 through 2015. During the six months ended December 27, 2024, the Company made payments of \$130 million for interest with respect to years 2008 through 2012 and \$32 million for tax and interest with respect to years 2013 through 2015, resulting in no remaining liability as of December 27, 2024 related to all years from 2008 through 2015.

In connection with settlements for the years 2008 through 2015, we expect to realize reductions to our mandatory deemed repatriation tax obligations and tax savings from interest deductions in future years aggregating to \$166 million. Of this amount, \$65 million of interest savings from the interest paid with respect to years 2008 through 2015 is classified as a deferred tax asset due to interest expense limitation rules. See Part I, Item 1, Note 12, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further details.

In August 2024, we filed a shelf registration statement (the “Shelf Registration Statement”) with the Securities and Exchange Commission that expires in August 2027. The Shelf Registration Statement allows us to offer and sell shares of common stock, preferred stock, warrants, and debt securities. We may use the Shelf Registration Statement or other capital sources, including other offerings of equity or debt securities or the credit markets, to satisfy future financing needs, including planned or unanticipated capital expenditures, investments, debt repayments or other expenses. Any such additional financing will be subject to market conditions and may not be available on terms acceptable to us or at all.

In 2024, we reduced our expenditures for property, plant and equipment and our portion of the Flash Ventures’ capital expenditures for its operations to approximately \$825 million from approximately \$2.22 billion in 2023. After consideration of the Flash Ventures’ lease financing of its capital expenditures and net operating cash flow, we reduced our net cash used for our purchases of property, plant and equipment and net activity in notes receivable relating to Flash Ventures to \$53 million in 2024 from \$794 million in 2023. We continue to be disciplined with our capital investments and expect our cash capital expenditures in 2025 to be higher than in 2024, but remain below 2023 expenditures.

We believe our cash and cash equivalents and our available revolving credit facility will be sufficient to meet our working capital, debt and capital expenditure needs for at least the next twelve months and for the foreseeable future thereafter. We believe we can also access the various debt capital markets to further supplement our liquidity position if necessary. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A, *Risk Factors*, in this Quarterly Report on Form 10-Q and in Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended June 28, 2024.

A total of \$1.60 billion of our Cash and cash equivalents was held by our foreign subsidiaries as of December 27, 2024 and June 28, 2024, respectively. There are no material tax consequences that were not previously accrued for on the repatriation of this cash.

Our cash equivalents are primarily invested in money market funds that invest in U.S. Treasury securities and U.S. Government agency securities. In addition, from time to time, we also invest directly in certificates of deposit, asset-backed securities and corporate and municipal notes and bonds.

### *Operating Activities*

Net cash provided by or used in operating activities primarily consists of net income or loss, adjusted for non-cash charges, plus or minus changes in operating assets and liabilities. Net cash used for changes in operating assets and liabilities was \$1.04 billion for the six months ended December 27, 2024, as compared to \$102 million for the six months ended December 29, 2023, which largely reflects an increase in the volume of our business, as discussed above.

Changes in our operating assets and liabilities are largely affected by our working capital requirements, which are dependent on our volume of business and the effective management of our cash conversion cycle as well as the timing of payments for taxes. Our cash conversion cycle measures how quickly we can convert our products into cash through sales. The cash conversion cycles were as follows (in days):

	<b>Three Months Ended</b>	
	<b>December 27, 2024</b>	<b>December 29, 2023</b>
Days sales outstanding	55	46
Days in inventory	112	115
Days payable outstanding	(66)	(63)
Cash conversion cycle	101	98

Changes in days sales outstanding (“DSO”) are generally due to the timing of shipments to and collections from customers. Changes in days in inventory (“DIO”) are generally related to the timing of inventory builds and shipments to customers. Changes in days payables outstanding (“DPO”) are generally related to production volume and the timing of purchases during the period. From time to time, we make payment term modifications with vendors through negotiations with them or by granting to, or receiving from, our vendors payment term accommodations. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances.

For the three months ended December 27, 2024, DSO increased by 9 days from the comparable period in the prior year, of which 3 days reflected an increase from lower trade accounts receivable factoring and the remainder reflected the timing of shipments and customer collections. DIO decreased by 3 days from the comparable period in the prior year, primarily reflecting higher consumption of inventory driven by strong demand in HDD, partially offset by weaker shipments in Flash, in the current period. DPO increased by 3 days from the comparable period in the prior year primarily due to more favorable payment terms and routine variations in the timing of purchases and payments during the period.

### *Investing Activities*

Net cash provided by investing activities for the six months ended December 27, 2024 primarily consisted of \$191 million in net proceeds from our sale of a majority interest in one of our subsidiaries and \$92 million in net proceeds from activity related to Flash Ventures, partially offset by \$208 million in capital expenditures, net of proceeds from disposals of assets. Net cash provided by investing activities for the six months ended December 29, 2023 primarily consisted of \$79 million in proceeds from net activity related to Flash Ventures and \$26 million of proceeds from net activity related to strategic investments, partially offset by \$81 million in capital expenditures, net of proceeds from disposals of assets, which includes the proceeds from the sale-leaseback of our Milpitas, California facility.

### *Financing Activities*

During the six months ended December 27, 2024, net cash used in financing activities primarily consisted of \$225 million for repayment of amounts borrowed under the revolving credit facility and scheduled repayments on the Term Loan A-2 and \$80 million for taxes paid on vested stock awards under employee stock plans, partially offset by \$150 million of proceeds from drawing on the revolving credit facility and \$52 million of proceeds from the issuance of stock under employee stock plans. During the six months ended December 29, 2023, net cash provided by financing activities primarily consisted of \$2.20 billion in proceeds from the issuance of the 2028 Convertible Notes and the drawdown of our delayed draw term loan, partially offset by \$505 million used to repurchase a portion of the 2024 Convertible Notes, \$338 million in repayments of our delayed draw term loan and Term Loan A-2 maturing 2027, and \$155 million for the purchase of capped calls to hedge the potential dilution impact of the conversion feature of the 2028 Convertible Notes.

## **Off-Balance Sheet Arrangements**

Other than the Flash Ventures related commitments incurred in the normal course of business and certain indemnification provisions (see “Short- and Long-term Liquidity – *Purchase Obligations and Other Commitments*” below), we do not have any other material off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any other obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not included in the Condensed Consolidated Financial Statements. Additionally, with the exception of Flash Ventures, our venture with SDSS, and our venture with Unisplendour Corporation Limited and Unisoft (Wuxi) Group Co. Ltd., we do not have an interest in, or relationships with, any variable interest entities. For additional information regarding our off-balance sheet arrangements, see Part I, Item 1, Note 9, *Related Parties and Related Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

## Short- and Long-term Liquidity

### Material Cash Requirements

The following is a summary of our known material cash requirements, including those for capital expenditures, as of December 27, 2024. In addition, see the discussions further below related to unrecognized tax benefits, litigation matters, dividend rights with respect to the Series A Preferred Stock, foreign exchange contracts and indemnifications.

	Total	1 Year (Remaining Six Months of 2025)	2-3 Years (2026- 2027)	4-5 Years (2028- 2029)	More than 5 Years (Beyond 2029)
	<i>(in millions)</i>				
Long-term debt, including current portion <sup>(1)</sup>	\$ 7,413	\$ 1,675	\$ 4,738	\$ 500	\$ 500
Interest on debt	848	173	496	132	47
Flash Ventures related commitments <sup>(2)</sup>	4,442	1,318	2,196	715	213
Operating leases	485	31	118	81	255
Purchase obligations and other commitments	3,066	112	1,154	1,140	660
Mandatory deemed repatriation tax	331	—	331	—	—
<b>Total</b>	<b>\$ 16,585</b>	<b>\$ 3,309</b>	<b>\$ 9,033</b>	<b>\$ 2,568</b>	<b>\$ 1,675</b>

<sup>(1)</sup> Principal portion of debt, excluding issuance costs.

<sup>(2)</sup> Includes reimbursement for depreciation and lease payments on owned and committed equipment, funding commitments for loans and equity investments and payments for other committed expenses, including R&D and building depreciation. Funding commitments assume no additional operating lease guarantees. Additional operating lease guarantees can reduce funding commitments.

### Unrecognized Tax Benefits

As of December 27, 2024, the liability for unrecognized tax benefits (excluding accrued interest and penalties) was \$688 million. Accrued interest and penalties related to unrecognized tax benefits are recognized in liabilities for uncertain tax positions and are recorded in the provision for income taxes. Accrued interest and penalties included in our liability related to unrecognized tax benefits as of December 27, 2024 was \$72 million. Of these amounts, approximately \$594 million could result in potential cash payments. As of December 27, 2024, it was not possible to estimate the amount of change, if any, in the unrecognized tax benefits that is reasonably possible within the next twelve months. Any significant change in the amount of our liability for unrecognized tax benefits would most likely result from additional information or settlements relating to the examination of our tax returns.

As noted above, we had previously reached a final agreement with the IRS regarding notices of deficiency with respect to years 2008 through 2012 and in February 2024 also reached a final agreement for resolving the notices of proposed adjustments with respect to years 2013 through 2015. During the six months ended December 27, 2024, we made payments of \$130 million for interest with respect to years 2008 through 2012 and \$32 million for tax and interest with respect to years 2013 through 2015, resulting in no remaining liability as of December 27, 2024 related to all years from 2008 through 2015.

In connection with settlements for the years 2008 through 2015, we expect to realize reductions to our mandatory deemed repatriation tax obligations and tax savings from interest deductions in future years aggregating to approximately \$166 million. Of this amount, \$65 million of interest savings from the interest paid with respect to years 2008 through 2015 is classified as a deferred tax asset due to interest expense limitation rules.

### *Litigation Matters*

For additional information on the litigation matters, see Part I, Item 1, Note 16, *Legal Proceedings*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

### *Dividend rights*

As of December 27, 2024, 235,000 shares of our Series A Preferred Stock remained outstanding. These shares are entitled to cumulative preferred dividends and will also participate in any dividends declared for common shareholders on an as-converted equivalent basis. See Part II, Item 8, Note 12, *Shareholders' Equity and Convertible Preferred Stock*, of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended June 28, 2024 and Part I, Item 1, Note 11, *Shareholders' Equity and Convertible Preferred Stock*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information regarding the dividend provisions.

### *Debt*

As described in Part I, Item 1, Note 7, *Debt*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, the Company issued \$1.60 billion aggregate principal amount of convertible senior notes in November 2023, which bear interest at an annual rate of 3.00% and mature on November 15, 2028 (the "2028 Convertible Notes"). The 2028 Convertible Notes are convertible at the option of any holder at an initial conversion price of approximately \$52.20 per share of common stock beginning August 15, 2028. Prior to that date, if the trading price of our common stock remains above 130% of the conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading-day period prior to the end of a calendar quarter, holders of the 2028 Convertible Notes would have the right to convert the 2028 Convertible Notes during the next succeeding calendar quarter. The 2028 Convertible Notes are also convertible prior to that date upon the occurrence of certain corporate events. Upon any conversion of the 2028 Convertible Notes, we will pay cash for the aggregate principal amount of the notes to be converted and pay or deliver, as the case may be, cash, shares of our common stock or a combination thereof, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the aggregate principal amount of the notes being converted.

The sale price conditional conversion feature of the 2028 Convertible Notes was not triggered during the calendar quarter ended December 31, 2024 and, accordingly, the holders of the 2028 Convertible Notes no longer have the right to convert the notes during the succeeding calendar quarter ending March 31, 2025. As a result, the 2028 Convertible Notes were classified as Long-term debt in the Condensed Consolidated Financial Statements as of December 27, 2024. The Company will continue to evaluate the conversion feature quarterly to determine if the 2028 Convertible Notes become convertible in future periods.

In addition to our outstanding debt, as of December 27, 2024, we had \$2.25 billion available for borrowing under our revolving credit facility maturing in January 2027, subject to customary conditions under the loan agreement. The agreements governing our credit facilities each include limits on secured indebtedness and certain types of unsecured subsidiary indebtedness and require us and certain of our subsidiaries to provide guarantees and collateral to the extent the conditions providing for such guarantees and collateral are met. The loan agreements governing our revolving credit facility and our Term Loan A-2 maturing 2027 require us to comply with a financial leverage ratio covenant. As of December 27, 2024, we were in compliance with the financial covenant. Additional information regarding our indebtedness, including information about availability under our revolving credit facility and the principal repayment terms, interest rates, covenants, collateral and other key terms of our outstanding indebtedness, is included in Part II, Item 8, Note 7, *Debt*, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended June 28, 2024 and Note 7, *Debt*, of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In connection with the planned separation of our HDD and Flash business units, we expect to enter into an amendment with our existing lenders under the loan agreements governing our Term Loan A-2 and the revolving credit facility maturing in January 2027, which amendment would permit the separation and, upon the consummation of the separation, reduce the commitments under the revolving credit facility, facilitate a potential future debt for equity exchange with respect to the term loan facility and adjust certain exceptions set forth therein. No assurance can be given that we will be able to enter into the amendment on our anticipated timeline or that we will be able to do so on acceptable terms or at all.

We may issue additional debt securities in the future that may be guaranteed by our 100% owned domestic subsidiary, Western Digital Technologies, Inc. (“Guarantor” and, together with Western Digital Corporation, the “Obligor Group”). Such guarantees may be full and unconditional, joint and several, on a secured or unsecured, subordinated or unsubordinated basis, and may be subject to certain customary guarantor release conditions. We conduct operations almost entirely through our subsidiaries. Accordingly, the Obligor Group’s cash flow and ability to service any guaranteed registered debt securities will depend on the earnings of our subsidiaries and the distribution of those earnings to the Obligor Group, including the earnings of the non-guarantor subsidiaries, whether by dividends, loans or otherwise. Holders of such guaranteed registered debt securities would have a direct claim only against the Obligor Group.

The following tables include summarized financial information for the Obligor Group. The financial information for the Obligor Group is presented on combined basis, excluding intercompany balances and transactions between the Company and the Guarantor, excluding net intercompany balances between the Obligor Group and non-guarantor subsidiaries, and excluding investments in and equity in the earnings of non-guarantor subsidiaries. The Obligor Group’s amounts due from, amounts due to, and transactions with non-guarantor subsidiaries have been presented in separate line items in the tables below.

The assets and liabilities of the Obligor Group include the following:

	<b>December 27, 2024</b>	<b>June 28, 2024</b>
	<i>(in millions)</i>	
Current assets	\$ 1,962	\$ 2,149
Non-current assets	2,456	2,208
Net intercompany receivables from non-guarantor subsidiaries	623	2,473
Current liabilities	1,426	3,758
Non-current liabilities	7,878	6,626

The operating results of the Obligor Group include the following:

	<b>Six Months Ended December 27, 2024</b>	<b>Year Ended June 28, 2024</b>
	<i>(in millions)</i>	
Net sales	\$ 2,905	\$ 4,066
Gross profit	1,141	1,002
Operating income (loss)	255	(927)
Net income (loss)	52	(1,211)

Results for the Obligor Group include the following transactions with non-guarantor subsidiaries:

	<b>Six Months Ended December 27, 2024</b>	<b>Year Ended June 28, 2024</b>
	<i>(in millions)</i>	
Intercompany revenue	\$ 597	\$ 1,416
Net intercompany interest (income) expense	(2)	8
Intercompany dividend income	539	567

### *Flash Ventures*

Flash Ventures sells to, and leases back from, a consortium of financial institutions a portion of its tools and has entered into equipment lease agreements of which we guarantee half or all of the outstanding obligations under each lease agreement. The leases are subject to customary covenants and cancellation events that relate to Flash Ventures and each of the guarantors. The occurrence of a cancellation event could result in an acceleration of the lease obligations and a call on our guarantees. As of December 27, 2024, we were in compliance with all covenants under these Japanese lease facilities. See Part I, Item 1, Note 9, *Related Parties and Related Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding Flash Ventures.

### *Purchase Obligations and Other Commitments*

In the normal course of business, we enter into purchase orders with suppliers for the purchase of components used to manufacture our products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, are recorded as a liability upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. We also enter into long-term agreements with suppliers that contain fixed future commitments, which are contingent on certain conditions such as performance, quality and technology of the vendor's components. These arrangements are included under "Purchase obligations and other commitments" in the table above.

### *Mandatory Deemed Repatriation Tax*

As of December 27, 2024, our estimated mandatory deemed repatriation tax obligation was \$331 million and was expected to be paid within the next twelve months.

### *Mandatory Research and Development Expense Capitalization*

Since the beginning of 2023, the 2017 Act has required us to capitalize and amortize R&D expenses rather than expensing them in the year incurred, which is expected to result in higher cash tax payments in future profitable periods, if not repealed or otherwise modified.

### *Foreign Exchange Contracts*

We purchase foreign exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for Operating expenses and product costs denominated in foreign currencies. See Part I, Item 3, *Quantitative and Qualitative Disclosures About Market Risk* included in this Quarterly Report on Form 10-Q for additional information.

### *Indemnifications*

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, products or services to be provided by us, environmental compliance or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers in certain circumstances.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements.

### **Recent Accounting Pronouncements**

For a description of recently issued and adopted accounting pronouncements, including the respective dates of adoption and expected effects on our results of operations and financial condition, see Part I, Item 1, Note 2, *Recent Accounting Pronouncements*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

## **Critical Accounting Policies and Estimates**

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of the financial statements requires the use of judgments and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and shareholders' equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. If these estimates differ significantly from actual results, the impact to the Condensed Consolidated Financial Statements may be material.

There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended June 28, 2024. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the year ended June 28, 2024 for a discussion of our critical accounting policies and estimates.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

Except as disclosed below, there have been no material changes to our market risk during the six months ended December 27, 2024. See Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended June 28, 2024 for further information about our exposure to market risk.

*Foreign Currency Risk*

We performed sensitivity analyses as of December 27, 2024, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analyses cover all of our foreign currency derivative contracts used to offset the underlying exposures. The foreign currency exchange rates used in performing the sensitivity analyses were based on market rates in effect at December 27, 2024. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates relative to the U.S. dollar would result in a foreign exchange fair value loss of \$239 million at December 27, 2024.

*Interest Rate Risk*

We have generally held a balance of fixed and variable rate debt. As of December 27, 2024, our variable rate debt outstanding consisted of our Term Loan A-2, which is based on various index rates as discussed further in Note 7, *Debt*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. As of December 27, 2024, the outstanding balance on our variable rate debt was \$2.5 billion and a one percent increase in the variable rate of interest would increase our annual interest expense by \$25 million.

**Item 4. *Controls and Procedures***

*Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15(b) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

*Changes in Internal Controls over Financial Reporting*

There has been no change in our internal control over financial reporting during the second quarter of fiscal year 2025 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

See Note 16, *Legal Proceedings* and Note 12, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for disclosures regarding certain legal proceedings and the status of statutory notices of deficiency issued by the IRS with regards to tax years 2008 through 2015, respectively, which are incorporated by reference herein.

### Item 1A. *Risk Factors*

We have described under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended June 28, 2024 a number of risks and uncertainties that could cause our actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. There have been no material changes from these risk factors previously described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended June 28, 2024. These risks and uncertainties are not the only risks facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition, results of operations or the market price of our common stock.

### Item 5. *Other Information*

#### *Insider Trading Arrangements*

During the second quarter, the following officer (as defined in Rule 16a-1(f) of the Exchange Act) terminated a trading arrangement for the purchase or sale of securities of Western Digital that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act (“Rule 10b5-1 Plan”):

- David Goeckeler, Chief Executive Officer of the Company, terminated a Rule 10b5-1 Plan on November 17, 2024.

### Item 6. *Exhibits*

The exhibits listed in the Exhibit Index below are filed with, or incorporated by reference in, this Quarterly Report on Form 10-Q, as specified in the Exhibit List, from exhibits previously filed with the Securities and Exchange Commission. Certain agreements listed in the Exhibit Index that we have filed or incorporated by reference may contain representations and warranties by us or our subsidiaries. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosures, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the actual state of affairs at the date hereof and should not be relied upon.

**EXHIBIT INDEX**

Exhibit Number	Description
<a href="#">3.1</a>	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K (File No. 1-08703) with the Securities and Exchange Commission on August 20, 2024)
<a href="#">3.2</a>	Certificate of Designations, Preferences and Rights of Series A Convertible Perpetual Preferred Stock (Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on February 1, 2023)
<a href="#">3.3</a>	Amended and Restated By-Laws of Western Digital Corporation, as amended effective as of February 10, 2021 (Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on February 12, 2021)
<a href="#">10.1</a>	Western Digital Corporation Amended and Restated 2021 Long-Term Incentive Plan (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on November 25, 2024)*
<a href="#">10.2</a>	Amendment No. 1, effective December 1, 2024, to the Western Digital Corporation Deferred Compensation Plan, amended and restated effective January 1, 2013†*
<a href="#">10.3</a>	Form of Sandisk Corporation Deferred Compensation Plan, effective January 1, 2025†*
<a href="#">31.1</a>	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
<a href="#">31.2</a>	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
<a href="#">32.1</a>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
<a href="#">32.2</a>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document†
104	Cover Page Interactive Data File - formatted in Inline XBRL and contained in Exhibit 101

† Filed with this report.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

\*\* Furnished with this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN DIGITAL CORPORATION

By: /s/ Gene Zamiska  
Gene Zamiska  
*Senior Vice President, Global Accounting and Chief Accounting Officer*  
(Principal Accounting Officer and Duly Authorized Officer)

Dated: January 30, 2025

WESTERN DIGITAL CORPORATION  
DEFERRED COMPENSATION PLAN

## AMENDMENT NO. 1

December 1, 2024

Section 10.1 of the Western Digital Corporation Deferred Compensation Plan, as amended and restated as of January 1, 2013 (the "Plan") allows Western Digital Corporation (the "Company") to amend the Plan at any time. Accordingly, the Plan is hereby amended, applicable to Compensation Deferral Agreements submitted on or after December 1, 2024 and Company Contributions credited with respect to Plan Years commencing after December 1, 2024, except as expressly provided herein. The Committee will establish new Accounts to record Participant Deferrals and Company Contributions made under this Amendment No. 1.

Amounts deferred under Compensation Deferral Agreement submitted prior to December 1, 2024 shall continue to be governed by and administered under the terms of the Plan in effect prior to this Amendment No. 1.

Capitalized terms not defined herein shall have the meaning given in the Plan as in effect prior to December 1, 2024.

1. New Section 2.35A is added to the Plan, to immediately follow section 2.35, and to read as follows:

"2.35A 'Primary Separation Account' means a Separation Account established upon a Participant's initial enrollment in the Plan on or after December 1, 2024, to record Company Contributions in addition to any Deferrals that the Participant may elect to allocate to such Account."

2. Section 2.37 of the Plan is amended to read in its entirety as follows:

"2.37 'Separation Benefit'. Separation Benefit means the benefit payable to a Participant following the Participant's Separation from Service, as provided in Sections 6.1(a) and 6.2(a)."

3. New Section 2.38A is added to the Plan, to immediately follow Section 2.38, to read as follows:

"2.38A. 'Separation Account' means an Account established by the Committee to record Deferrals that will be paid upon Separation from Service as provided in Section 6.1(a). Unless the Committee provides otherwise during an applicable enrollment, a Participant may maintain a maximum of five (5) Separation Accounts (excluding his or her Primary Separation Account) in combination with any Specified Date Accounts established by the Participant under his or her Compensation Deferral Agreements submitted on or after December 1, 2024.

4. Section 2.40 ("Specified Date Account") is amended to add the following sentence:

"Unless the Committee provides otherwise during an applicable enrollment, a Participant may maintain a maximum of five (5) Separation Accounts (excluding his or her Primary Separation

Account) in combination with any Specified Date Accounts established by the Participant under his or her Compensation Deferral Agreements submitted on or after December 1, 2024.”

5. Section 4.2 is amended to read in its entirety as follows:

“4.2 Allocation of Deferrals; Payment Schedules

- (a) The Participant shall specify on his or her Compensation Deferral Agreement the amount of Deferrals for the Plan Year and whether to allocate a portion, or all, of such Deferrals among his or her Primary Separation Account, any Separation Accounts or any Specified Date Accounts established in such Compensation Deferral Agreement, or any prior Compensation Deferral Agreement submitted to the Committee on or after December 1, 2024.
- (b) A Participant may also specify the Payment Schedule for a Primary Separation Account, Separation Account or Specified Date Account being established for the first time in such Compensation Deferral Agreement. Payment Schedules for existing Accounts may not be changed except as provided in Article VII. If the Payment Schedule for a newly established Account is not specified in a Compensation Deferral Agreement, the Payment Schedule shall be the default Payment Schedule specified in Section 6.2.

6. Section 5.1 is amended to read in its entirety as follows:

“5.1 Discretionary Company Contributions. The Participating Employer may, from time to time in its sole and absolute discretion, credit Company Contributions for a Plan Year to any Participant in any amount determined by the Participating Employer. Such contributions will be credited to a Participant’s Primary Separation Account as of the last day of the Plan Year. A Participant must be actively employed on the last day of a Plan Year (or have Separated from Service due to death or Retirement) in order to receive a Company Contribution for such Plan Year.”

7. Sections 6.1(a) through (g) are re-designated as Sections 6.1(a) through (f). Sections 6.1(a) through (e) are amended to read in their entirety as follows:

“6.1 Benefits, Generally. A Participant shall be entitled to the following benefits under the Plan:

- (a) *Separation Benefit*. Upon the Participant’s Separation from Service the Participant is entitled to receive the vested portion of his or her Primary Separation Account, any Separation Accounts and any Specified Date Accounts that have not commenced payment as of the Participant’s Separation from Service; provided, however, that if Separation from Service occurs within 24 months following a Change in Control, the Separation Benefit will include all unpaid Accounts.

Payment will commence in the calendar year next following Separation from Service, provided, however, that with respect to a Participant who is a Specified Employee as of the date such Participant’s Separation from Service, payment will be made no earlier than the seventh month following the month in which Separation from Service occurs.

Accounts will be valued as of the last Business Day of the immediately preceding year, except that a payment to a Specified Employee will be valued as of the last Business Day of the sixth month following his or her Separation from Service. Subsequent installment payments will be made in succeeding calendar years, valued as of the last Business Day of the immediately preceding calendar year.

- (b) *Specified Date Benefit.* If the Participant has established one or more Specified Date Accounts, he or she shall be entitled to a Specified Date Benefit with respect to each such Specified Date Account. The Specified Date Benefit shall be equal to the vested portion of the Specified Date Account, based on the value of that Account as of the end of the Plan Year immediately preceding the designated Plan Year.
  - (c) *Disability Benefit.* If a Participant incurs a Disability as an Employee, he or she shall receive his or her unpaid Account Balances (regardless of whether payment has commenced under Section 6.1(a) or (b)), valued as of the last day of the month in which Disability occurs. Payment will be made within 60 days following the Committee's determination of the Participant's Disability.
  - (d) *Death Benefit.* Upon the Participant's death while an Employee the Participant is entitled to receive his or her Primary Separation Account, any Separation Accounts and any Specified Date Accounts that have not commenced payment as of the Participant's death. Payment will commence in the calendar year next following the Participant's death. Accounts will be valued as of the last Business Day of the immediately preceding year. Subsequent installment payments will be made in succeeding calendar years, valued as of the last Business Day of the immediately preceding calendar year.
  - (e) *Unforeseeable Emergency Payments.* A Participant who experiences an Unforeseeable Emergency may submit a written request to the Committee to receive payment of all or any portion of his or her vested Accounts. Whether a Participant or Beneficiary is faced with an Unforeseeable Emergency permitting an emergency payment shall be determined by the Committee based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be reimbursed through insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of Deferrals under this Plan. If an emergency payment is approved by the Committee, the amount of the payment shall not exceed the amount reasonably necessary to satisfy the need, taking into account the additional compensation that is available to the Participant as the result of cancellation of deferrals to the Plan, including amounts necessary to pay any taxes or penalties that the Participant reasonably anticipates will result from the payment. The amount of the emergency payment shall be subtracted pro rata from the Participant's Primary Separation Account and Separation Accounts until depleted and then from the Specified Date Accounts, beginning with the Specified Date Account with the latest payment commencement date. Emergency payments shall be paid in a single lump sum within the 90-day period following the date the payment is approved by the Committee.”
8. Sections 6.2(a) through (j) are redesignated as Sections 6.2(a) through (h). Sections 6.2(a) through (g) are amended to read in their entirety as follows:

“6.2 Form of Payment.

- (a) *Separation Benefit.* A Participant who is entitled to payment under Section 6.1(a) will receive his Primary Separation Account and any Specified Date Accounts described in Section 6.1(a) according to the Payment Schedule in effect for the Participant's Primary Separation Account.

A Participant may elect a different Payment Schedule for his or her Separation Accounts payable under Section 6.1(a).

Payment will be made in a single lump sum unless the Participant has elected, with respect to his or her Primary Separation Account or any Separation Account, to have such Account paid in a designated number of substantially equal annual installments over a period over five (5), ten (10), fifteen (15) or twenty (20) payments.

Notwithstanding anything to the contrary contained herein, a Participant will receive his or her Separation Benefit in a single lump sum payment equal to the unpaid balance of all of his or her Accounts if Separation from Service occurs within 24 months following a Change in Control. If a Participant has incurred a Separation from Service at the time of the Change in Control, any unpaid Account Balances will be paid in a single lump sum in accordance with Section 6.1(a).

- (b) *Specified Date Benefit.* Each Specified Date Account described in Section 6.1(b) shall be paid in a single lump sum, unless the Participant elects on the Compensation Deferral Agreement with which the Account was established to have the Specified Date Account paid in a designated number of substantially equal annual installments over a period of two (2) to five (5) payments.
- (c) *Disability Benefit.* A Participant who is entitled to receive a Disability Benefit shall receive payment of such benefit in a single lump sum.
- (d) *Death Benefit.* A designated Beneficiary who is entitled to receive a Death Benefit under Section 6.2(d) shall receive payment according to his or her Payment Schedules determined under Section 6.2(a). If death occurs after Separation from Service or Disability, payment to the Participant's designated Beneficiary will continue to be made according to the Payment Schedules in effect.
- (e) *Small Account Balances.* The Committee shall pay the value of the Participant's Accounts upon a Separation from Service in a single lump sum if the balance of such Accounts is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), provided the payment represents the complete liquidation of the Participant's interest in the Plan. This provision applies to all Accounts in the Plan established after the Effective Date.
- (f) *Rules Applicable to Installment Payments.* If a Payment Schedule specifies installment payments, annual payments will be made in a series of consecutive calendar years until the number of installment payments specified in the Payment Schedule has been paid. The amount of each installment payment shall be determined by dividing (a) by (b), where (a) equals the Account Balance as of the Valuation Date and (b) equals the remaining number of installment payments. For purposes of Article VII, installment payments will be treated as a

single payment. For Accounts established after the Effective Date and prior to December 1, 2024, if a lump sum equal to less than 100% of the Retirement/Termination Account is paid, the payment commencement date for the installment form of payment will be the first anniversary of the payment of the lump sum.

(g) *Amounts allocated to Company Stock.* Any portion of a Participant's Account that is payable in Company Stock in accordance with Section 8.6 shall be paid in a single lump sum in an equivalent number of shares of Company Stock at the time distribution is otherwise scheduled to commence hereunder."

9. Section 8.1 is amended to read in its entirety as follows:

"8.1 Valuation. Deferrals shall be credited to appropriate Accounts on the date such Compensation would have been paid to the Participant absent the Compensation Deferral Agreement. Company Contributions shall be credited at the times determined by the Committee. Valuation of Accounts shall be performed under procedures approved by the Committee."

10. The third paragraph of Section 8.4 of the Plan is amended to read in its entirety as follows:

"A Participant may change an investment allocation on any Business Day, both with respect to future credits to the Plan and with respect to existing Account Balances, in accordance with procedures adopted by the Committee. Changes shall become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day, and shall be applied prospectively."

11. Except as amended hereby, the terms of the Plan remain in full force and effect.

**IN WITNESS WHEREOF**, the undersigned executed this Amendment and Restatement to the Plan as of the 4 day of December, 2024 to be effective December 1, 2024.

## **WESTERN DIGITAL CORPORATION**

By: Christine Bastian (Print Name)

Its: Chief People & Inclusion Office (Title)

/s/ Christine Bastian (Signature)

# **Sandisk Corporation**

## **Deferred Compensation Plan**

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Effective January 1, 2025

### **IMPORTANT NOTE**

**This document has not been approved by the Department of Labor, Internal Revenue Service, or any other governmental entity. An adopting Employer must determine whether the Plan is subject to the Federal securities laws and the securities laws of the various states. An adopting Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is “unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees” under Title I of the Employee Retirement Income Security Act of 1974, as amended, with respect to the Employer’s particular situation. FMR LLC, its affiliates and employees cannot provide you with legal advice in connection with the execution of this document. This document should be reviewed by the Employer’s attorney prior to execution.**

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## **Preamble**

**The Plan is intended to be a “plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, or an “excess benefit plan” within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended, or a combination of both. The Plan is further intended to conform with the requirements of Internal Revenue Code Section 409A and the final regulations issued thereunder and shall be interpreted, implemented, and administered in a manner consistent therewith.**

## **Article 1 - General**

### **1.1. Plan**

The Plan will be referred to by the name specified in the Adoption Agreement.

### **1.2. Effective Dates**

- (a) **Original Effective Date.** The Original Effective Date is the date as of which the Plan was initially adopted.
- (b) **Amendment Effective Date.** The Amendment Effective Date is the date specified in the Adoption Agreement as of which the Plan is amended and restated. Except as otherwise provided in the Adoption Agreement, all amounts deferred under the Plan prior to the Amendment Effective Date shall be governed by the terms of the Plan as in effect on the day before the Amendment Effective Date.
- (c) **Special Effective Date.** A Special Effective Date may apply to any given provision if so specified in Appendix A of the Adoption Agreement. A Special Effective Date will control over the Original Effective Date or Amendment Effective Date, whichever is applicable, with respect to such provision of the Plan.

### **1.3. Amounts Not Subject to Code Section 409A**

Except as otherwise indicated by the Plan Sponsor in Section 1.01 of the Adoption Agreement, amounts deferred before January 1, 2005 that are earned and vested on December 31, 2004 will be separately accounted for and administered in accordance with the terms of the Plan as in effect on December 31, 2004.

## Article 2 - Definitions

Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

### **2.1. Account**

“Account” means an account and any subaccounts established for the purpose of recording amounts credited on behalf of a Participant and any earnings, expenses, gains, losses, or distributions included thereon. The Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant or to the Participant’s Beneficiary pursuant to the Plan.

### **2.2. Administrator**

“Administrator” means the person or persons designated by the Plan Sponsor in Section 1.05 of the Adoption Agreement to be responsible for the administration of the Plan. If no Administrator is designated in the Adoption Agreement, the Administrator is the Plan Sponsor.

### **2.3. Adoption Agreement**

“Adoption Agreement” means the agreement adopted by the Plan Sponsor that establishes the Plan.

### **2.4. Beneficiary**

“Beneficiary” means the persons, trusts, estates, or other entities entitled under Section 8.2 to receive benefits under the Plan upon the death of a Participant.

### **2.5. Board or Board of Directors**

“Board” or “Board of Directors” means the Board of Directors of the Plan Sponsor.

### **2.6. Bonus**

“Bonus” means an amount of incentive remuneration payable by the Employer to a Participant.

### **2.7. Change in Control**

“Change in Control” means the occurrence of an event involving the Plan Sponsor that is described in Section 9.7.

### **2.8. Code**

“Code” means the Internal Revenue Code of 1986, as amended.

### **2.9. Compensation**

“Compensation” has the meaning specified in Section 3.01 of the Adoption Agreement.

### **2.10. Director**

“Director” means a non-employee member of the Board who has been designated by the Employer as eligible to participate in the Plan.

**2.11. *Disability***

“Disability” means that a Participant is disabled as defined in Section 6.01(i) of the Adoption Agreement.

**2.12. *Eligible Employee***

“Eligible Employee” means an employee of the Employer who satisfies the requirements in Section 2.01 of the Adoption Agreement.

**2.13. *Employer***

“Employer” means the Plan Sponsor and any other Related Employer that is listed in Section 1.04 of the Adoption Agreement and which is authorized by the Plan Sponsor to participate in and, in fact, does adopt the Plan.

**2.14. *ERISA***

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

**2.15. *Identification Date***

“Identification Date” means the date as of which Key Employees are determined which is specified in Section 1.06 of the Adoption Agreement.

**2.16. *Key Employee***

“Key Employee” means an employee who satisfies the conditions set forth in Section 9.6.

**2.17. *Participant***

“Participant” means an Eligible Employee or Director who commences participation in the Plan in accordance with Article 3.

**2.18. *Plan***

“Plan” means the unfunded plan of deferred compensation set forth herein, including the Adoption Agreement and any trust agreement, as adopted by the Plan Sponsor, and as amended from time to time.

**2.19. *Plan Sponsor***

“Plan Sponsor” means the entity identified in Section 1.03 of the Adoption Agreement or any successor by merger, consolidation or otherwise.

**2.20. *Plan Year***

“Plan Year” means the period identified in Section 1.02 of the Adoption Agreement.

**2.21. *Related Employer***

“Related Employer” means the Plan Sponsor and (a) any corporation that is a member of a controlled group of corporations as defined in Code Section 414(b) that includes the Plan Sponsor and (b) any trade or business that is under common control as defined in Code Section 414(c) that includes the Plan Sponsor.

## **2.22. Retirement**

“Retirement” has the meaning specified in 6.01(f) of the Adoption Agreement.

## **2.23. Separation from Service**

“Separation from Service” means the date that the Participant dies, retires, or otherwise has a termination of employment with respect to all entities comprising the Related Employer. A Separation from Service does not occur if the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or such longer period during which the Participant’s right to re-employment is provided by statute or contract. If the period of leave exceeds six months and the Participant’s right to re-employment is not provided either by statute or contract, a Separation from Service will be deemed to have occurred on the first day following the six-month period. If the period of leave is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where the impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29 month period of absence may be substituted for the six month period.

Whether a termination of employment has occurred is based on whether the facts and circumstances indicate that the Related Employer and the Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36 month period (or the full period of services to the Related Employer if the employee has been providing services to the Related Employer for less than 36 months).

An independent contractor is considered to have experienced a Separation from Service with the Related Employer upon the expiration of the contract (or, in the case of more than one contract, all contracts) under which services are performed for the Related Employer if the expiration constitutes a good-faith and complete termination of the contractual relationship.

If a Participant provides services as both an employee and an independent contractor of the Related Employer, the Participant must separate from service both as an employee and as an independent contractor to be treated as having incurred a Separation from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services in both capacities.

If a Participant provides services both as an employee and as a member of the Board of Directors of a corporate Related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as a Director are not taken into account in determining whether the Participant has incurred a Separation from Service as an employee for purposes of a nonqualified deferred compensation plan in which the Participant participates as an employee that is not aggregated

under Code Section 409A with any plan in which the Participant participates as a Director.

If a Participant provides services both as an employee and as a member of the Board of Directors of a corporate related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as an employee are not taken into account in determining whether the Participant has experienced a Separation from Service as a Director for purposes of a nonqualified deferred compensation plan in which the Participant participates as a Director that is not aggregated under Code Section 409A with any plan in which the Participant participates as an employee.

All determinations of whether a Separation from Service has occurred will be made in a manner consistent with Code Section 409A and the final regulations thereunder.

#### **2.24. *Unforeseeable Emergency***

“Unforeseeable Emergency” means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Code Section 152, without regard to Code section 152(b)(1), (b)(2) and (d)(1)(B); loss of the Participant’s property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

#### **2.25. *Valuation Date***

“Valuation Date” means each business day of the Plan Year that the New York Stock Exchange is open.

#### **2.26. *Years of Service***

“Years of Service” means each one-year period for which the Participant receives service credit in accordance with the provisions of Section 7.01(d) of the Adoption Agreement.

## **Article 3 - Participation**

### **3.1. *Participation***

The Participants in the Plan shall be those Eligible Employees and Directors of the Employer who satisfy the requirements of Section 2.01 of the Adoption Agreement.

### **3.2. *Termination of Participation***

The Administrator may terminate a Participant's participation in the Plan in a manner consistent with Code Section 409A. If the Employer terminates a Participant's participation before the Participant experiences a Separation from Service, the Participant's vested Accounts shall be paid in accordance with the provisions of Article 9.

## **Article 4 - Participant Elections**

### **4.1. *Deferral Agreement***

If permitted by the Plan Sponsor in accordance with Section 4.01 of the Adoption Agreement, each Eligible Employee and Director may elect to defer his or her Compensation within the meaning of Section 3.01 of the Adoption Agreement by executing in writing or electronically, a deferral agreement in accordance with rules and procedures established by the Administrator and the provisions of this Article 4.

A new deferral agreement must be timely executed for each Plan Year during which the Eligible Employee or Director desires to defer Compensation. An Eligible Employee or Director who does not timely execute a deferral agreement shall be deemed to have elected zero deferrals of Compensation for such Plan Year.

A deferral agreement may be changed or revoked during the period specified by the Administrator. Except as provided in Section 9.3, a deferral agreement becomes irrevocable at the close of the specified period.

### **4.2. *Amount of Deferral***

An Eligible Employee or Director may elect to defer Compensation in any amount permitted by Section 4.01(a) of the Adoption Agreement.

### **4.3. *Timing of Election to Defer***

Each Eligible Employee or Director who desires to defer Compensation otherwise payable during a Plan Year must execute a deferral agreement within the period preceding the Plan Year specified by the Administrator. Each Eligible Employee who desires to defer Compensation that is a Bonus must execute a deferral agreement within the period preceding the Plan Year during which the Bonus is earned that is specified by the Administrator, except that if the Bonus can be treated as performance based compensation as described in Code Section 409A(a)(4)(B)(iii), the deferral agreement may be executed within the period specified by the Administrator, which period, in no event, shall end after the date which is six months prior to the end of the period during which the Bonus is earned, provided the Participant has performed services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Participant executed the deferral agreement and provided further that the compensation has not yet become 'readily ascertainable' within the meaning of Treas. Reg. § 1.409A-2(a)(8). In addition, if the Compensation qualifies as 'fiscal year compensation' within the meaning of Treas. Reg. § 1.409A-2(a)(6), the deferral agreement may be made not later than the end of the Employer's taxable year immediately preceding the first taxable year of the Employer in which any services are performed for which such Compensation is payable.

Except as otherwise provided below, an employee who is classified or designated as an Eligible Employee during a Plan Year or a Director who is designated as eligible to participate during a Plan Year may elect to defer Compensation otherwise payable during the remainder of such Plan Year in accordance with the rules of this Section 4.3 by executing a deferral agreement within the thirty (30) day period beginning on the date the employee is classified or designated as an Eligible Employee or the date the Director is designated as eligible, whichever is applicable, if permitted by Section 4.01(b)(ii) of the Adoption Agreement. If Compensation is based on a specified performance period that begins before the Eligible Employee or Director executes his or her deferral agreement, the election will be deemed to apply to the portion of such Compensation equal to the total amount of Compensation for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election becomes irrevocable and effective over the total number of days in the performance period. The rules of this paragraph shall not apply unless the Eligible Employee or Director can be treated as initially eligible in accordance with Treas. Reg. § 1.409A-2(a)(7).

#### **4.4. *Election of Payment Schedule and Form of Payment***

All elections of a payment schedule and a form of payment will be made in accordance with rules and procedures established by the Administrator and the provisions of this Section 4.4.

- (a) If the Plan Sponsor has elected to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director completes a deferral agreement, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for the Compensation subject to the deferral agreement from among the options the Plan Sponsor has made available for this purpose and which are specified in 6.01(b) of the Adoption Agreement. Prior to the time required by Treas. Reg. § 1.409A-2, the Eligible Employee or Director shall elect a distribution event (which includes a specified time) and a form of payment for any Employer contributions that may be credited to the Participant's Account during the Plan Year. If an Eligible Employee or Director fails to elect a distribution event, he or she shall be deemed to have elected Separation from Service as the distribution event. If he or she fails to elect a form of payment, he or she shall be deemed to have elected a lump sum form of payment.
  
- (b) If the Plan Sponsor has elected not to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director first completes a deferral agreement but in no event later than the time required by Treas. Reg. § 1.409A-2, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for amounts credited to his or her Account from among the options the Plan Sponsor has made available for this purpose and which are specified in Section 6.01(b) of the Adoption Agreement. If an Eligible Employee or Director fails to elect a distribution event, he or she shall be deemed to have elected Separation from Service in the distribution event. If the Participant fails to elect a form of payment, he or she shall be deemed to have elected a lump sum form of payment

## **Article 5 - Employer Contributions**

### **5.1. *Matching Contributions***

If elected by the Plan Sponsor in Section 5.01(a) of the Adoption Agreement, the Employer will credit the Participant's Account with a matching contribution determined in accordance with the formula specified in Section 5.01(a) of the Adoption Agreement. The matching contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(a)(iii) of the Adoption Agreement.

### **5.2. *Other Contributions***

If elected by the Plan Sponsor in Section 5.01(b) of the Adoption Agreement, the Employer will credit the Participant's Account with a contribution or contributions determined in accordance with the formula or method specified in Section 5.01(b) of the Adoption Agreement. These contributions will be treated as allocated to the Participant's Account at the time specified in Section 5.01(b)(iii) of the Adoption Agreement.

## **Article 6 - Accounts and Credits**

### **6.1. *Establishment of Account***

For accounting and computational purposes only, the Administrator will establish and maintain an Account on behalf of each Participant which will reflect the credits made pursuant to Section 6.2, distributions or withdrawals, along with the earnings, expenses, gains and losses allocated thereto, attributable to the hypothetical investments made with the amounts in the Account as provided in Article 7. The Administrator may establish and maintain such other records and accounts, as it decides in its discretion to be reasonably required or appropriate to discharge its duties under the Plan.

### **6.2. *Credits to Account***

A Participant's Account will be credited for each Plan Year with the amount of his or her elective deferrals under Section 4.1 at the time the amount subject to the deferral election would otherwise have been payable to the Participant and the amount of Employer contributions, if any, treated as allocated on his or her behalf under Article 5.

## **Article 7 - Investment of Contributions**

### **7.1. *Investment Options***

The amount credited to each Account shall be treated as invested in the investment options designated for this purpose by the Administrator.

### **7.2. *Adjustment of Accounts***

The amount credited to each Account shall be adjusted for hypothetical investment earnings, expenses, gains or losses in an amount equal to the earnings, expenses, gains or losses attributable to the investment options selected by the party designated in Section 9.01 of the Adoption Agreement from among the investment options provided in Section 7.1. If permitted by Section 9.01 of the Adoption Agreement, a Participant (or the Participant's Beneficiary after the death of the Participant) may, in accordance with rules and procedures established by the Administrator, select the investments from among the options provided in Section 7.1 to be used for the purpose of calculating future hypothetical investment adjustments to the Account or to future credits to the Account under Section 6.2 effective as of the Valuation Date coincident with or next following notice to the Administrator. Each Account shall be adjusted as of each Valuation Date to reflect: (a) the hypothetical earnings, expenses, gains, and losses described above; (b) amounts credited pursuant to Section 6.2; and (c) distributions or withdrawals. In addition, each Account may be adjusted for its allocable share of the hypothetical costs and expenses associated with the maintenance of the hypothetical investments provided in Section 7.1.

## **Article 8 - Right to Benefits**

### **8.1. Vesting**

A Participant, at all times, has a 100% nonforfeitable interest in the amounts credited to his or her Account attributable to his or her elective deferrals made in accordance with Section 4.1.

A Participant's right to the amounts credited to his or her Account attributable to Employer contributions made in accordance with Article 5 shall be determined in accordance with the relevant schedule and provisions in Section 7.01 of the Adoption Agreement. Upon a Separation from Service and after application of the provisions of Section 7.01 of the Adoption Agreement, the Participant shall forfeit the nonvested portion of his or her Account.

### **8.2. Death**

The Plan Sponsor may elect to accelerate vesting upon the death of the Participant in accordance with Section 7.01(c) of the Adoption Agreement and/or to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement. If the Plan Sponsor does not elect to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the vested amount credited to the Participant's Account will be paid in accordance with the provisions of Article 9.

A Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries in accordance with rules and procedures established by the Administrator. Whenever a Participant designates a new Beneficiary, all former Beneficiary designations by such Participant shall be revoked automatically. If a Participant and the Participant's spouse divorce, any designations of the spouse as Beneficiary shall become null and void. The former spouse shall be treated as the Beneficiary under the Plan only if after the divorce is final, the Participant expressly re-designates the former spouse as the Participant's Beneficiary.

A copy of the death notice or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's vested Account, such amount will be paid to his or her estate (such estate shall be deemed to be the Beneficiary for purposes of the Plan) in accordance with the provisions of Article 9.

### **8.3. Disability**

If the Plan Sponsor has elected to accelerate vesting upon the occurrence of a Disability in accordance with Section 7.01(c) of the Adoption Agreement and/or to permit distributions upon Disability in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the determination of whether a Participant has incurred a Disability shall be based on the definition of Disability in Section 6.01(i) of the Adoption Agreement and in a manner consistent with the requirements of Code Section 409A.

## **Article 9 - Distribution of Benefits**

### **9.1. *Amount of Benefits***

The vested amount credited to a Participant's Account as determined under Articles 6, 7 and 8 shall determine and constitute the basis for the value of benefits payable to the Participant under the Plan.

### **9.2. *Method and Timing of Distributions***

Except as otherwise provided in this Article 9, distributions under the Plan shall be made in accordance with the elections made or deemed made by the Participant under Article 4. Subject to the provisions of Section 9.6 requiring a six-month delay for certain distributions to Key Employees, distributions following a payment event shall commence at the time specified in Section 6.01(a) of the Adoption Agreement. If permitted by Section 6.01(g) of the Adoption Agreement, a Participant may elect, at least twelve months before a scheduled distribution event, to delay the payment date for a minimum period of sixty months from the originally scheduled date of payment, provided the election does not take effect for at least twelve months from the date on which the election is made. The distribution election change must be made in accordance with procedures and rules established by the Administrator. The Participant may, at the same time the date of payment is deferred, change the form of payment but such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Treas. Reg. § 1.409A-2(b). For purposes of this Section 9.2, a series of installment payments is always treated as a single payment and not as a series of separate payments.

### **9.3. *Unforeseeable Emergency***

A Participant may request a distribution due to an Unforeseeable Emergency if the Plan Sponsor has elected to permit Unforeseeable Emergency withdrawals under Section 8.01(a) of the Adoption Agreement. The request must be in writing and must be submitted to the Administrator along with evidence that the circumstances constitute an Unforeseeable Emergency. The Administrator has the discretion to require whatever evidence it deems necessary to determine whether a distribution is warranted, and may require the Participant to certify that the need cannot be met from other sources reasonably available to the Participant. Whether a Participant has incurred an Unforeseeable Emergency will be determined by the Administrator on the basis of the relevant facts and circumstances in its sole discretion, but, in no event, will an Unforeseeable Emergency be deemed to exist if the hardship can be relieved: (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets to the extent such liquidation would not itself cause severe financial hardship, or (c) by cessation of deferrals under the Plan. A distribution due to an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need and may include any amounts necessary to pay any federal, state, foreign or local income taxes and penalties reasonably anticipated to result from the distribution. The distribution will be made in the form of a single lump sum cash payment. If permitted by Section 8.01(b) of the Adoption Agreement, a Participant's deferral elections for the remainder of the Plan Year will be cancelled upon a withdrawal due to an Unforeseeable Emergency. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with Section 9.6 at the time he or she experiences an Unforeseeable Emergency, the amount being delayed shall not be subject to the

provisions of this Section 9.3 until the expiration of the six month period of delay required by section 9.6.

**9.4. *Payment Election Overrides***

If the Plan Sponsor has elected one or more payment election overrides in accordance with Section 6.01(d) of the Adoption Agreement, the following provisions apply. Upon the occurrence of the first event selected by the Plan Sponsor, the remaining vested amount credited to the Participant's Account shall be paid in the form designated to the Participant or his or her Beneficiary regardless of whether the Participant had made different elections of time and/or form of payment or whether the Participant was receiving installment payments at the time of the event.

**9.5. *Cashouts of Amounts Not Exceeding Stated Limit***

If the vested amount credited to the Participant's Account does not exceed the limit established for this purpose by the Plan Sponsor in Section 6.01(e) of the Adoption Agreement at the time he or she incurs a Separation from Service for any reason, the Employer shall distribute such amount to the Participant at the time specified in Section 6.01(a) of the Adoption Agreement in a single lump sum cash payment following such Separation from Service regardless of whether the Participant had made different elections of time or form of payment as to the vested amount credited to his or her Account or whether the Participant was receiving installments at the time of such termination. A Participant's Account, for purposes of this Section 9.5, shall include any amounts described in Section 1.3.

**9.6. *Required Delay in Payment to Key Employees***

Except as otherwise provided in this Section 9.6, a distribution made on account of Separation from Service (or Retirement, if applicable) to a Participant who is a Key Employee as of the date of his or her Separation from Service (or Retirement, if applicable) shall not be made before the date which is six months after the Separation from Service (or Retirement, if applicable).

- (a) A Participant is treated as a Key Employee if: (i) he or she is employed by a Related Employer any of whose stock is publicly traded on an established securities market, and (ii) he or she satisfies the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii), determined without regard to Code Section 416(i)(5), at any time during the twelve month period ending on the Identification Date.
- (b) A Participant who is a Key Employee on an Identification Date shall be treated as a Key Employee for purposes of the six month delay in distributions for the twelve month period beginning on the first day of a month no later than the fourth month following the Identification Date. The Identification Date and the effective date of the delay in distributions shall be determined in accordance with Section 1.06 of the Adoption Agreement.

- (c) The Plan Sponsor may elect to apply an alternative method to identify Participants who will be treated as Key Employees for purposes of the six month delay in distributions if the method satisfies each of the following requirements: (i) is reasonably designed to include all Key Employees, (ii) is an objectively determinable standard providing no direct or indirect election to any Participant regarding its application, and (iii) results in either all Key Employees or no more than 200 Key Employees being identified in the class as of any date. Use of an alternative method that satisfies the requirements of this Section 9.6(c) will not be treated as a change in the time and form of payment for purposes of Treas. Reg. § 1.409A-2(b).
- (d) The six-month delay does not apply to payments described in Section 9.9(a), (b) or (d) or to payments that occur after the death of the Participant. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with this Section 9.6 at the time he or she incurs a Disability which would otherwise require a distribution under the terms of the Plan, no amount shall be paid until the expiration of the six month period of delay required by this Section 9.6.

## **9.7. *Change in Control***

**Administration Upon Change in Control.** Upon a Change in Control, the Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Committee. The individual who was the Chief Executive Officer of the Company (or if such person is unable or unwilling to act, the next highest ranking officer) prior to the Change in Control shall have the authority (but shall not be obligated) to appoint an independent third party to act as the Committee.

Upon such Change in Control, the Company may not remove the Committee, unless 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the removal and replacement of the Committee. Notwithstanding the foregoing, upon or after a Change in Control, neither the Committee nor the officer described above shall have authority to direct investment of trust assets under any rabbi trust described in Article 11 (which authority shall be exercised by the trustee of any such trust in accordance with the terms of the trust agreement).

The Participating Employer shall, with respect to the Committee identified under this Section: (i) pay all reasonable expenses and fees of the Committee, (ii) indemnify the Committee (including individuals serving as Committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Committee's duties hereunder, except with respect to matters resulting from the Committee's gross negligence or willful misconduct, and (iii) supply full and timely information to the Committee on all matters related to the Plan, any trust, Participants, Beneficiaries and Accounts as the Committee may reasonably require.

If the Plan Sponsor has elected to permit distributions upon a Change in Control, the following provisions shall apply. A distribution made upon a Change in Control will be made at the time specified in Section 6.01(a) of the Adoption Agreement in the form elected by the Participant in accordance with the procedures described in Article 4. Alternatively, if the Plan Sponsor has elected in accordance with Section 11.02 of the Adoption Agreement to require distributions upon a Change in Control,

the Participant's remaining vested Account shall be paid to the Participant or the Participant's Beneficiary at the time specified in Section 6.01(a) of the Adoption Agreement as a single lump sum payment. A Change in Control, for purposes of the Plan, will occur upon a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor or a change in the ownership of a substantial portion of the assets of the Plan Sponsor, but only if elected by the Plan Sponsor in Section 11.03 of the Adoption Agreement. The Plan Sponsor, for this purpose, includes any corporation identified in this Section 9.7. All distributions made in accordance with this Section 9.7 are subject to the provisions of Section 9.6.

If a Participant continues to make deferrals in accordance with Article 4 after he or she has received a distribution due to a Change in Control, the residual amount payable to the Participant shall be paid at the time and in the form specified in the elections he or she makes in accordance with Article 4 or upon his or her death or Disability as provided in Article 8.

Whether a Change in Control has occurred will be determined by the Administrator in accordance with the rules and definitions set forth in this Section 9.7. A distribution to the Participant will be treated as occurring upon a Change in Control if the Plan Sponsor terminates the Plan in accordance with Section 10.2 and distributes the Participant's benefits within twelve months of a Change in Control as provided in Section 10.3.

- (a) **Relevant Corporations.** To constitute a Change in Control for purposes of the Plan, the event must relate to: (i) the corporation for whom the Participant is performing services at the time of the Change in Control, (ii) the corporation that is liable for the payment of the Participant's benefits under the Plan (or all corporations liable if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of services by the Participant for such corporation (or corporations) or there is a bona fide business purpose for such corporation (or corporations) to be liable for such payment and, in either case, no significant purpose of making such corporation (or corporations) liable for such payment is the avoidance of federal income tax, or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii). A majority shareholder is defined as a shareholder owning more than fifty percent (50%) of the total fair market value and voting power of such corporation.
- (b) **Stock Ownership.** Code Section 318(a) applies for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who owns the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). If, however, a vested option is exercisable for stock that is not substantially vested (as defined by Treas. Reg. § 1.83-3(b) and (j)) the stock underlying the option is not treated as owned by the individual who holds the option.
- (c) **Change in the Ownership of a Corporation.** A change in the ownership of a corporation occurs on the date that any one person or more than one person acting as a group, acquires ownership of stock of the corporation that,

together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. If any one person or more than one person acting as a group is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation as discussed below in Section 9.7(d)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock. Section 9.7(c) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction. For purposes of this Section 9.7(c), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time or as a result of a public offering. Persons will, however, be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase, or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (d) Change in the Effective Control of a Corporation. A change in the effective control of a corporation occurs on the date that either (i) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation, or (ii) a majority of members of the corporation's Board of Directors is replaced during any twelve month period by Directors whose appointment or election is not endorsed by a majority of the members of the corporation's Board of Directors prior to the date of the appointment or election, provided that for purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in Section 9.7(a) for which no other corporation is a majority shareholder for purposes of Section 9.7(a). In the absence of an event described in Section 9.7(d)(i) or (ii), a change in the effective control of a corporation will not have occurred. A change in effective control may also occur in any transaction in which either of the two corporations involved in the transaction has a change in the ownership of such corporation as described in Section 9.7(c) or a change in the ownership of a substantial portion of the assets of such corporation as described in Section 9.7(e). If any one person, or more than one person acting as a group, is considered to effectively control a corporation within the meaning of this Section 9.7(d), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation or to cause a change in the ownership of the corporation within the meaning of Section 9.7(c). For purposes of this Section 9.7(d), persons will or will not be considered to be

acting as a group in accordance with rules similar to those set forth in Section 9.7(c) with the following exception. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (e) **Change in the Ownership of a Substantial Portion of a Corporation's Assets.** A change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in accordance with rules similar to those set forth in Section 9.7(d)), acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation or the value of the assets being disposed of determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 9.7(e) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer. A transfer of assets by a corporation is not treated as a change in ownership of such assets if the assets are transferred to (i) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation, (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation, or (iv) an entity, at least fifty (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 9.7(e)(iii). For purposes of the foregoing, and except as otherwise provided, a person's status is determined immediately after the transfer of assets.

## **9.8. *Permissible Delays in Payment***

Distributions may be delayed beyond the date payment would otherwise occur in accordance with the provisions of Articles 8 and 9 in any of the following circumstances (as long as the Employer treats all payments to similarly situated Participants on a reasonably consistent basis):

- (a) The Employer may delay payment if it reasonably anticipates that its deduction with respect to such payment would be limited or eliminated by the application of Code Section 162(m). Payment must be made during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year the deduction of such payment will not be barred by the application of Code Section 162(m) or during the period beginning with the Participant's Separation from Service and ending on the later of the last day of the Employer's taxable year in which the Participant separates from service or

the 15<sup>th</sup> day of the third month following the Participant's Separation from Service. If a scheduled payment to a Participant is delayed in accordance with this Section 9.8(a), all scheduled payments to the Participant that could be delayed in accordance with this Section 9.8(a) will also be delayed.

- (b) The Employer may also delay payment if it reasonably anticipates that the making of the payment will violate federal securities laws or other applicable laws provided payment is made at the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation.
- (c) The Employer reserves the right to amend the Plan to provide for a delay in payment upon such other events and conditions as the Secretary of the Treasury may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

### **9.9. *Permitted Acceleration of Payment***

The Employer may permit acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to a payment under the Plan provided such acceleration would be permitted by the provisions of Treas. Reg. § 1.409A-3(j)(4), including the following events:

- (a) **Domestic Relations Order.** A payment may be accelerated if such payment is made to an alternate payee pursuant to and following the receipt and qualification of a domestic relations order as defined in Code Section 414(p).
- (b) **Compliance with Ethics Agreement and Legal Requirements.** A payment may be accelerated as may be necessary to comply with ethics agreements with the Federal government or as may be reasonably necessary to avoid the violation of Federal, state, local or foreign ethics law or conflicts of laws, in accordance with the requirements of Code Section 409A.
- (c) **De Minimis Amounts.** A payment may be accelerated if (i) the amount of the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), and (ii) at the time the payment is made the amount constitutes the Participant's entire interest under the Plan and all other plans that are aggregated with the Plan under Treas. Reg. § 1.409A-1(c)(2).
- (d) **FICA Tax.** A payment may be accelerated to the extent required to pay the Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) of the Code with respect to compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be accelerated to pay the income tax on wages imposed under Code Section 3401 of the Code on the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this subsection (d) may not exceed the aggregate of the FICA Amount and the income tax withholding related to the FICA Amount.
- (e) **Section 409A Additional Tax.** A payment may be accelerated if the Plan fails to meet the requirements of Code Section 409A; provided that such payment

may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.

- (f) **Offset.** A payment may be accelerated in the Employer's discretion as satisfaction of a debt of the Participant to the Employer, where such debt is incurred in the ordinary course of the service relationship between the Participant and the Employer, the entire amount of the reduction in any of the Employer's taxable years does not exceed \$5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.
- (g) **Other Events.** A payment may be accelerated in the Administrator's discretion in connection with such other events and conditions as permitted by Code Section 409A.

## **Article 10 - Amendment and Termination**

### **10.1. *Amendment by Plan Sponsor***

The Plan Sponsor reserves the right to amend the Plan (for itself and each Employer) through action of its Board of Directors or other authorized person. No amendment can directly or indirectly deprive any current or former Participant or Beneficiary of all or any portion of his or her Account which had accrued and vested prior to the amendment.

### **10.2. *Plan Termination Following Change in Control or Corporate Dissolution***

If so elected by the Plan Sponsor in 11.01 of the Adoption Agreement, the Plan Sponsor reserves the right to terminate the Plan and distribute all amounts credited to all Participant Accounts within the 30 days preceding or the twelve months following a Change in Control as determined in accordance with the rules set forth in Section 9.7. For this purpose, the Plan will be treated as terminated only if all agreements, methods, programs and other arrangements sponsored by the Related Employer immediately after the Change in Control which are treated as a single plan under Treas. Reg. § 1.409A-1(c)(2) are also terminated so that all Participants under the Plan and all similar arrangements are required to receive all amounts deferred under the terminated arrangements within twelve months of the date the Plan Sponsor irrevocably takes all necessary action to terminate the arrangements. In addition, the Plan Sponsor reserves the right to terminate the Plan within twelve months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U. S. C. Section 503(b)(1)(A) provided that amounts deferred under the Plan are included in the gross incomes of Participants in the latest of (a) the calendar year in which the termination and liquidation occurs, (b) the first calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (c) the first calendar year in which payment is administratively practicable.

### **10.3. *Other Plan Terminations***

The Plan Sponsor retains the discretion to terminate the Plan if (a) all arrangements sponsored by the Plan Sponsor that would be aggregated with any terminated arrangement under Code Section 409A and Treas. Reg. § 1.409A-1(c)(2) are terminated, (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within twelve months of the termination of the arrangements, (c) all payments are made within twenty-four months of the date the Plan Sponsor takes all necessary action to irrevocably terminate and liquidate the arrangements, (d) the Plan Sponsor does not adopt a new arrangement that would be aggregated with any terminated arrangement under Code Section 409A and the regulations thereunder at any time within the three year period following the date of termination of the arrangement, and (e) the termination does not occur proximate to a downturn in the financial health of the Plan Sponsor. The Plan Sponsor also reserves the right to amend the Plan to provide that termination of the Plan will occur under such conditions and events as may be prescribed by the Secretary of the Treasury in generally applicable guidance published in the Internal Revenue Bulletin.

## **Article 11 - The Trust**

### **11.1. *Establishment of Trust***

The Plan Sponsor may but is not required to establish a trust to hold amounts which the Plan Sponsor may contribute from time to time to correspond to some or all amounts credited to Participants under Section 6.2. In the event that the Plan Sponsor wishes to establish a trust to provide a source of funds for the payment of Plan benefits, any such trust shall be constructed to constitute an unfunded arrangement that does not affect the status of the Plan as an unfunded plan for purposes of Title I of ERISA and the Code. If the Plan Sponsor elects to establish a trust in accordance with Section 10.01 of the Adoption Agreement, the provisions of Sections 11.2 and 11.3 shall become operative.

### **11.2. *Trust***

Any trust established by the Plan Sponsor shall be between the Plan Sponsor and a trustee pursuant to a separate written agreement under which assets are held, administered and managed, subject to the claims of the Plan Sponsor's creditors in the event of the Plan Sponsor's insolvency. The Plan Sponsor must notify the trustee in the event of a bankruptcy or insolvency.

### **11.3. *Investment of Trust Funds***

Any amounts contributed to the trust by the Plan Sponsor shall be invested by the trustee in accordance with the provisions of the trust and the instructions of the Administrator. Trust investments need not reflect the hypothetical investments selected by Participants under Section 7.1 for the purpose of adjusting Accounts and the earnings or investment results of the trust need not affect the hypothetical investment adjustments to Participant Accounts under the Plan.

## **Article 12 - Plan Administration**

### **12.1. *Powers and Responsibilities of the Administrator***

The Administrator has the full power and the full responsibility to administer the Plan in all of its details; subject, however, to the applicable requirements of ERISA. The Administrator's powers and responsibilities include, but are not limited to, the following:

- (a) To make and enforce such rules and procedures as it deems necessary or proper for the efficient administration of the Plan;**
- (b) To interpret the Plan, its interpretation thereof to be final, except as provided in Section 12.2, on all persons claiming benefits under the Plan;**
- (c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;**
- (d) To administer the claims and review procedures specified in Section 12.2;**
- (e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;**
- (f) To determine the person or persons to whom such benefits will be paid;**
- (g) To authorize the payment of benefits;**
- (h) To make corrections and recover the overpayment of any benefits;**
- (i) To comply with the reporting and disclosure requirements of Part 1 of Subtitle B of Title I of ERISA;**
- (j) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan;**
- (k) By written instrument, to allocate and delegate its responsibilities, including the formation of an Administrative Committee to administer the Plan.**

## 12.2. *Claims and Review Procedures*

- (a) **Claims Procedure.** If any person believes he or she is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the person's right to bring a civil action following an adverse decision on review. If the claim involves a Disability, the denial must also include the standards that governed the decision, including the basis for disagreeing with any health care professionals, vocational professionals or the Social Security Administration as well as an explanation of the scientific or clinical judgment underlying the denial. Such notification will be given within 90 days (45 days in the case of a claim regarding Disability) after the claim is received by the Administrator. The Administrator may extend the period for providing the notification by 90 days (30 days in the case of a claim regarding Disability, which may be extended an additional 30 days) if special circumstances require an extension of time for processing the claim and if written notice of such extension and circumstance is given to such person within the initial 90 day period (45 day period in the case of a claim regarding Disability). If such notification is not given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his or her claim.
- (b) **Review Procedure.** Within 60 days (180 days in the case of a claim regarding Disability) after the date on which a person receives a written notification of denial of claim (or, if written notification is not provided, within 60 days (180 days in the case of a claim regarding Disability) of the date denial is considered to have occurred), such person (or his or her duly authorized representative) may (i) file a written request with the Administrator for a review of his or her denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The notification will explain that the person is entitled to receive, upon request and free of charge, reasonable access to and copies of all pertinent documents and has the right to bring a civil action following an adverse decision on review. The decision on review will be made within 60 days (45 days in the case of a claim regarding Disability). The Administrator may extend the period for making the decision on review by 60 days (45 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the request such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period (45 days in the case of a claim regarding Disability). If the decision on review is not made within such period, the claim will be considered denied.

If the claim is regarding Disability, and the determination of Disability has not been made by the Social Security Administration, the Railroad Retirement Board, or under the Plan Sponsor's long-term disability plan, the person may, upon written request and free of charge, also receive the identification of medical or vocational experts whose advice was obtained in connection with the denial of a claim regarding Disability, even if the advice was not relied upon.

Before issuing any decision with respect to a claim involving Disability, the Administrator will provide to the person, free of charge, the following information as soon as possible and sufficiently in advance of the date on which the response is required to be provided to the person to allow the person a reasonable opportunity to respond prior to the due date of the response:

- (i) Any new or additional evidence considered, relied upon, or generated by the Administrator or other person making the decision; and
  - (ii) A new or additional rationale if the decision will be based on that rationale.
- (c) **Exhaustion of Claims Procedures and Right to Bring Legal Claim.** No action at law or equity shall be brought more than one year after the Administrator's affirmation of a denial of a claim, or, if earlier, more than four years after the facts or events giving rise to the claimant's allegation(s) or claim(s) first occurred.

### **12.3. *Plan Administrative Costs***

All reasonable costs and expenses (including legal, accounting, and employee communication fees) incurred by the Administrator in administering the Plan shall be paid by the Plan to the extent not paid by the Employer.

## **Article 13 - Miscellaneous**

### **13.1. *Unsecured General Creditor of the Employer***

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Employer. For purposes of the payment of benefits under the Plan, any and all of the Employer's assets shall be, and shall remain, the general, unpledged, unrestricted assets of the Employer. Each Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

### **13.2. *Employer's Liability***

Each Employer's liability for the payment of benefits under the Plan shall be defined only by the Plan and by the deferral agreements entered into between a Participant and the Employer. An Employer shall have no obligation or liability to a Participant under the Plan except as provided by the Plan and a deferral agreement or agreements. An Employer shall have no liability to Participants employed by other Employers.

### **13.3. *Limitation of Rights***

Neither the establishment of the Plan, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to the Participant or any other person any legal or equitable right against the Employer, the Plan or the Administrator, except as provided herein; and in no event will the terms of employment or service of the Participant be modified or in any way affected hereby.

### **13.4. *Anti-Assignment***

Except as may be necessary to fulfill a domestic relations order within the meaning of Code Section 414(p), none of the benefits or rights of a Participant or any Beneficiary of a Participant shall be subject to the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his or her Beneficiary. Neither the Participant nor his or her Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, or assign any of the payments which he or she may expect to receive, contingently or otherwise, under the Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. Notwithstanding the preceding, the benefit payable from a Participant's Account may be reduced, at the discretion of the Administrator, to satisfy any debt or liability to the Employer.

### **13.5. *Facility of Payment***

If the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of any benefit payments under the Plan is incapable of handling his or her affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may direct the Employer to disburse such payments to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such payments therefore, and any such payment to the extent thereof, shall discharge the liability of the Employer, the Plan and the Administrator for the payment of benefits hereunder to such recipient.

### **13.6. *Notices***

Any notice or other communication to the Employer or Administrator in connection with the Plan shall be deemed delivered in writing if addressed to the Plan Sponsor at the address specified in Section 1.03 of the Adoption Agreement and if either actually delivered at said address or, in the case of a letter, five business days shall have elapsed after the same shall have been deposited in the United States mails, first-class postage prepaid and registered or certified.

### **13.7. *Tax Withholding***

If the Employer concludes that tax is owing with respect to any deferral or payment hereunder, the Employer shall withhold such amounts from any payments due the Participant or from amounts deferred, as permitted by law, or otherwise make appropriate arrangements with the Participant or his or her Beneficiary for satisfaction of such obligation. Tax, for purposes of this Section 13.7 means any federal, state, local or any other governmental income tax, employment or payroll tax, excise tax, or any other tax or assessment owing with respect to amounts deferred, any earnings thereon, and any payments made to Participants under the Plan.

### **13.8. Indemnification**

- (a)** Each Indemnitee (as defined in Section 13.8(e)) shall be indemnified and held harmless by the Employer for all actions taken by him or her and for all failures to take action (regardless of the date of any such action or failure to take action), to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated, against all expense, liability, and loss (including, without limitation, attorneys' fees, judgments, fines, taxes, penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Indemnitee in connection with any Proceeding (as defined in subsection (e)). No indemnification pursuant to this Section shall be made, however, in any case where (1) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness or (2) there is a settlement to which the Employer does not consent.
- (b)** The right to indemnification provided in this Section shall include the right to have the expenses incurred by the Indemnitee in defending any Proceeding paid by the Employer in advance of the final disposition of the Proceeding, to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated; provided that, if such law requires, the payment of such expenses incurred by the Indemnitee in advance of the final disposition of a Proceeding shall be made only on delivery to the Employer of an undertaking, by or on behalf of the Indemnitee, to repay all amounts so advanced without interest if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified under this Section or otherwise.
- (c)** Indemnification pursuant to this Section shall continue as to an Indemnitee who has ceased to be such and shall inure to the benefit of his or her heirs, executors, and administrators. The Employer agrees that the undertakings made in this Section shall be binding on its successors or assigns and shall survive the termination, amendment, or restatement of the Plan.
- (d)** The foregoing right to indemnification shall be in addition to such other rights as the Indemnitee may enjoy as a matter of law or by reason of insurance coverage of any kind and is in addition to and not in lieu of any rights to indemnification to which the Indemnitee may be entitled pursuant to the by-laws of the Employer.
- (e)** For the purposes of this Section, the following definitions shall apply:

  - (i)** "Indemnitee" shall mean each person serving as an Administrator (or any other person who is an employee, Director, or officer of the Employer) who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any Proceeding, by reason of the fact that he or she is or was performing administrative functions under the Plan.
  - (ii)** "Proceeding" shall mean any threatened, pending, or completed action, suit, or proceeding (including, without limitation, an action, suit, or proceeding by or in the right of the Employer), whether civil, criminal, administrative, investigative, or through arbitration.

**13.9. Successors**

The provisions of the Plan shall bind and inure to the benefit of the Plan Sponsor, the Employer and their successors and assigns and the Participant and the Participant's designated Beneficiaries.

**13.10. Disclaimer**

It is the Plan Sponsor's intention that the Plan comply with the requirements of Code Section 409A. Neither the Plan Sponsor nor the Employer shall have any liability to any Participant should any provision of the Plan fail to satisfy the requirements of Code Section 409A.

**13.11. Governing Law**

The Plan will be construed, administered, and enforced according to the laws of the State specified by the Plan Sponsor in Section 12.01 of the Adoption Agreement.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David V. Goeckeler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David V. Goeckeler

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David V. Goeckeler  
*Chief Executive Officer*

Dated: January 30, 2025

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wissam Jabre, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Wissam Jabre

Wissam Jabre

*Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)*

Dated: January 30, 2025

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 27, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David V. Goeckeler

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David V. Goeckeler  
*Chief Executive Officer*

Dated: January 30, 2025

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 27, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wissam Jabre

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Wissam Jabre

*Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)*

Dated: January 30, 2025