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 October 2, 2020

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	**33-0956711**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
5601 Great Oaks Parkway San Jose, California	**95119**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $.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 October 30, 2020, 304,245,045 shares of common stock, par value $0.01 per share, were outstanding.

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, G-Technology, 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:

- *expectations regarding the effects of the COVID-19 pandemic and measures intended to reduce its spread;*
- *expectations regarding our Flash Ventures joint venture with Kioxia Corporation, the flash industry and our flash wafer output plans;*
- *expectations regarding the outcome of legal proceedings in which we are involved;*
- *our reinvestment in the business and ongoing deleveraging efforts;*
- *our beliefs regarding tax benefits and the timing of future payments, if any, relating to the unrecognized tax benefits, and the adequacy of our tax provisions;*
- *expectations regarding capital investments and sources of funding for those investments; and*
- *our beliefs regarding the sufficiency of our available liquidity to meet our working capital, debt and capital expenditure needs as well as our dividend plans.*

These forward-looking statements are based on information available to the Company as of the date of this Quarterly Report on Form 10-Q and are based on management's current views and assumptions. They are conditioned upon and involve a number of risks, uncertainties and other factors that could cause actual results or performance to differ materially from those expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to:

- *future responses to and effects of the COVID-19 pandemic;*
- *volatility in global economic conditions;*
- *impact of business and market conditions;*
- *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;*
- *difficulties or delays in manufacturing or other supply chain disruptions;*
- *hiring and retention of key employees;*
- *our high level of debt and other financial obligations;*
- *changes to our relationships with key customers;*
- *disruptions in operations from cyberattacks or other system security risks;*
- *actions by competitors; and*
- *risks associated with compliance with changing legal and regulatory requirements and the outcome of legal proceedings.*

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 Annual Report on Form 10-K for the fiscal year ended July 3, 2020 (the "2020 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 2020 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 events or circumstances 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)

	October 2, 2020	July 3, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,995	$ 3,048
Accounts receivable, net	2,097	2,379
Inventories	3,355	3,070
Other current assets	558	551
Total current assets	9,005	9,048
Property, plant and equipment, net	2,897	2,854
Notes receivable and investments in Flash Ventures	1,746	1,875
Goodwill	10,069	10,067
Other intangible assets, net	758	941
Other non-current assets	927	877
Total assets	$ 25,402	$ 25,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,949	$ 1,945
Accounts payable to related parties	404	407
Accrued expenses	1,293	1,296
Accrued compensation	497	472
Current portion of long-term debt	286	286
Total current liabilities	4,429	4,406
Long-term debt	9,086	9,289
Other liabilities	2,311	2,416
Total liabilities	15,826	16,111
Commitments and contingencies (Notes 9, 10, 12 and 15)		
Shareholders' equity:		
Preferred stock, $0.01 par value; authorized — 5 shares; issued and outstanding — none	—	—
Common stock, $0.01 par value; authorized — 450 shares; issued — 312 shares; outstanding — 304 shares and 302 shares, respectively	3	3
Additional paid-in capital	3,537	3,717
Accumulated other comprehensive income (loss)	(101)	(157)
Retained earnings	6,658	6,725
Treasury stock — common shares at cost; 8 shares and 10 shares, respectively	(521)	(737)
Total shareholders' equity	9,576	9,551
Total liabilities and shareholders' equity	$ 25,402	$ 25,662

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	
	October 2, 2020	October 4, 2019
Revenue, net	$ 3,922	$ 4,040
Cost of revenue	3,018	3,282
Gross profit	904	758
Operating expenses:		
Research and development	555	574
Selling, general and administrative	256	305
Employee termination, asset impairment, and other charges	23	8
Total operating expenses	834	887
Operating income (loss)	70	(129)
Interest and other income (expense):		
Interest income	2	12
Interest expense	(84)	(122)
Other income, net	9	2
Total interest and other expense, net	(73)	(108)
Loss before taxes	(3)	(237)
Income tax expense	57	39
Net loss	$ (60)	$ (276)
Loss per common share		
Basic and diluted	$ (0.20)	$ (0.93)
Weighted average shares outstanding:		
Basic and diluted	303	296
Cash dividends declared per share	$ —	$ 0.50

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

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
Net loss	$ (60)	$ (276)
Other comprehensive income (loss), before tax:		
Actuarial pension gain	1	1
Foreign currency translation adjustment	32	5
Net unrealized gain (loss) on derivative contracts and available-for-sale securities	30	(33)
Total other comprehensive income (loss), before tax	63	(27)
Income tax benefit (expense) related to items of other comprehensive income (loss), before tax	(7)	5
Other comprehensive income (loss), net of tax	56	(22)
Total comprehensive loss	$ (4)	$ (298)

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)

	Three Months Ended	
	October 2, 2020	October 4, 2019
Cash flows from operating activities		
Net loss	$ (60)	$ (276)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	374	406
Stock-based compensation	76	77
Deferred income taxes	11	(27)
Loss on disposal of assets	1	2
Amortization of debt discounts	10	10
Other non-cash operating activities, net	(6)	(21)
Changes in:		
Accounts receivable, net	282	(243)
Inventories	(285)	(5)
Accounts payable	99	155
Accounts payable to related parties	(3)	176
Accrued expenses	(23)	100
Accrued compensation	26	75
Other assets and liabilities, net	(139)	(176)
Net cash provided by operating activities	363	253
Cash flows from investing activities		
Purchases of property, plant and equipment	(337)	(145)
Proceeds from the sale of property, plant and equipment	7	—
Acquisitions, net of cash acquired	—	(22)
Notes receivable issuances to Flash Ventures	(114)	(171)
Notes receivable proceeds from Flash Ventures	277	357
Strategic investments and other, net	1	15
Net cash provided by (used in) investing activities	(166)	34
Cash flows from financing activities		
Issuance of stock under employee stock plans	1	26
Taxes paid on vested stock awards under employee stock plans	(41)	(52)
Dividends paid to shareholders	—	(147)
Repayment of debt	(213)	(319)
Net cash used in financing activities	(253)	(492)
Effect of exchange rate changes on cash	3	(2)
Net decrease in cash and cash equivalents	(53)	(207)
Cash and cash equivalents, beginning of year	3,048	3,455
Cash and cash equivalents, end of period	$ 2,995	$ 3,248
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 144	$ 67
Cash paid for interest	$ 104	$ 143

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at July 3, 2020	312	$ 3	(10)	$ (737)	$ 3,717	$ (157)	$ 6,725	$ 9,551
Net loss	—	—	—	—	—	—	(60)	(60)
Adoption of new accounting standards	—	—	—	—	—	—	(7)	(7)
Employee stock plans	—	—	2	216	(256)	—	—	(40)
Stock-based compensation	—	—	—	—	76	—	—	76
Actuarial pension gain	—	—	—	—	—	1	—	1
Foreign currency translation adjustment	—	—	—	—	—	32	—	32
Net unrealized gain on derivative contracts	—	—	—	—	—	23	—	23
Balance at October 2, 2020	312	$ 3	(8)	$ (521)	$ 3,537	$ (101)	$ 6,658	$ 9,576

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balance at June 28, 2019	312	$ 3	(17)	$ (1,268)	$ 3,851	$ (68)	$ 7,449	$ 9,967
Net loss	—	—	—	—	—	—	(276)	(276)
Adoption of new accounting standards	—	—	—	—	—	—	(5)	(5)
Employee stock plans	—	—	3	181	(207)	—	—	(26)
Stock-based compensation	—	—	—	—	77	—	—	77
Dividends to shareholders	—	—	—	—	7	—	(156)	(149)
Actuarial pension gain	—	—	—	—	—	1	—	1
Foreign currency translation adjustment	—	—	—	—	—	4	—	4
Net unrealized loss on derivative contracts	—	—	—	—	—	(27)	—	(27)
Balance at October 4, 2019	312	$ 3	(14)	$ (1,087)	$ 3,728	$ (90)	$ 7,012	$ 9,566

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 that address the evolving needs of the information technology ("IT") industry and the infrastructure that enables the proliferation of data in virtually every other industry. The Company creates environments for data to thrive. The Company is driving the innovation needed to help customers capture, preserve, access and transform an ever-increasing diversity of data. Everywhere data lives, from advanced data centers to mobile sensors to personal devices, the Company's industry-leading solutions deliver the possibilities of data.

The Company's broad portfolio of technology and products address the following key end markets: Client Devices; Data Center Devices and Solutions; and Client Solutions. The Company also generates license and royalty revenue from its extensive intellectual property ("IP"), 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 Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 3, 2020. In the opinion of management, all adjustments necessary to fairly state the Condensed Consolidated Financial Statements have been made. All such adjustments are 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 fiscal year ended July 3, 2020. 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 2021, which ends on July 2, 2021, will be comprised of 52 weeks, with all quarters presented consisting of 13 weeks. Fiscal year 2020, which ended on July 3, 2020, was comprised of 53 weeks, with the first quarter consisting of 14 weeks and the remaining quarters consisting of 13 weeks each.

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 with consideration given to the potential impacts of the coronavirus disease 2019 ("COVID-19") pandemic. However, actual results could differ materially from these estimates and be significantly affected by the severity and duration of the pandemic, the extent of actions to contain or treat COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that results from the pandemic.

Segment Information

The Company manufactures, markets, and sells data storage devices and solutions in the U.S. and in foreign countries through its sales personnel, dealers, distributors, retailers, and subsidiaries. Historically, the Company has managed and reported under a single operating segment. Late in the first quarter of fiscal 2021, the Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"), announced a decision to reorganize the Company's business by forming two separate product business units: flash-based products and hard disk drives ("HDD"). Beginning in the second fiscal quarter, the Company is in the process of transitioning to this new operating model and discrete information has not yet been established to align with the new business structure. Management expects to finalize its assessment of its operating segments when the transition is completed, which is expected to be by the end of fiscal 2021.

Note 2. Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables, and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require an entity to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2019, which for the Company is the first quarter of fiscal 2021. The Company adopted this standard effective July 4, 2020 (the beginning of fiscal 2021) with no material impact on its Condensed Consolidated Financial Statements.

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606" ("ASU 2018-18"). ASU 2018-18 clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. This ASU requires retrospective adoption to the date the Company adopted Accounting Standards Codification (ASC) 606 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings of the earliest annual period presented. The Company adopted this standard effective July 4, 2020 (the beginning of fiscal 2021) with no material impact on its Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). ASU 2019-12 removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This ASU is effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2020, which for the Company is the first quarter of fiscal 2022. Early adoption is permitted. The Company does not expect this update to have a material impact on its Condensed Consolidated Financial Statements.

Note 3. Revenues

Contract assets represent the Company’s rights to consideration where performance obligations are completed but the customer payments are not due until another performance obligation is satisfied. The Company did not have any contract assets as of either October 2, 2020 or July 3, 2020.

The Company incurs sales commissions and other direct incremental costs to obtain sales contracts. The Company has applied the practical expedient to recognize the direct incremental costs of obtaining contracts as an expense when incurred if the amortization period is expected to be one year or less or the amount is not material, with these costs charged to Selling, general and administrative expenses. Other direct incremental costs to obtain contracts that have an expected benefit of greater than one year are amortized over the period of expected cash flows from the related contracts, and the amortization expense is recorded as a reduction to revenue. Total capitalized contract costs as of October 2, 2020 and July 3, 2020 as well as the related amortization for the three months ended October 2, 2020 and October 4, 2019 were not material.

Contract liabilities relate to customers’ payments in advance of performance under the contract and primarily relate to remaining performance obligations under support and maintenance contracts. As of October 2, 2020 and July 3, 2020, contract liabilities were not material.

The Company applies the practical expedients and does not disclose transaction price allocated to the remaining performance obligations for (i) arrangements that have an original expected duration of one year or less, which mainly consist of support and maintenance contracts, and (ii) variable consideration amounts for sale-based or usage-based royalties for IP license arrangements, which typically range longer than one year. Remaining performance obligations are mainly attributed to right-to-access patent license arrangements and customer support and service contracts, which will be recognized over the remaining contract period. The transaction price allocated to the remaining performance obligations as of October 2, 2020 was $102 million, which is mainly attributable to the functional IP license and service arrangements. The Company expects to recognize this amount as revenue as follows: $31 million during the remainder of fiscal 2021, $40 million in fiscal 2022, and $31 million in fiscal 2023 and thereafter.

The Company’s disaggregated revenue information is as follows:

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Revenue by Product		
Hard disk drives (“HDD”)	$ 1,844	$ 2,408
Flash-based	2,078	1,632
Total Revenue	$ 3,922	$ 4,040
Revenue by End Market		
Client Devices	$ 1,946	$ 1,616
Data Center Devices & Solutions	1,129	1,532
Client Solutions	847	892
Total Revenue	$ 3,922	$ 4,040
Revenue by Geography		
Americas	$ 1,079	$ 1,313
Europe, Middle East and Africa	629	779
Asia	2,214	1,948
Total Revenue	$ 3,922	$ 4,040

The Company’s top 10 customers accounted for 44% of its net revenue for the three months ended October 2, 2020, and 43% of its net revenue for the three months ended October 4, 2019. For the three months ended October 2, 2020, no single customer accounted for 10% of the Company’s net revenue, and for the three months ended October 4, 2019, one customer accounted for 11% of the Company’s net revenue.

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. During the three months ended October 2, 2020 and October 4, 2019, the Company sold trade accounts receivable and received cash proceeds of $128 million and $85 million, respectively. The discounts on the trade accounts receivable sold during the periods were not material and were recorded within Other income, net in the Condensed Consolidated Statements of Operations. As of October 2, 2020 and July 3, 2020, the amount of factored receivables that remained outstanding was $128 million and $113 million, respectively.

Inventories

	October 2, 2020	July 3, 2020
	(in millions)	
Inventories:		
Raw materials and component parts	$ 1,426	$ 1,306
Work-in-process	964	956
Finished goods	965	808
Total inventories	$ 3,355	$ 3,070

Property, plant and equipment, net

	October 2, 2020	July 3, 2020
	(in millions)	
Property, plant and equipment:		
Land	$ 286	$ 294
Buildings and improvements	1,865	1,837
Machinery and equipment	7,514	7,391
Computer equipment and software	430	429
Furniture and fixtures	52	52
Construction-in-process	327	297
Property, plant and equipment, gross	10,474	10,300
Accumulated depreciation	(7,577)	(7,446)
Property, plant and equipment, net	$ 2,897	$ 2,854

Goodwill

	Carrying Amount
	(in millions)
Balance at July 3, 2020	$ 10,067
Foreign currency translation adjustment	2
Balance at October 2, 2020	$ 10,069

Intangible assets

	October 2, 2020	July 3, 2020
	(in millions)	
Finite-lived intangible assets	$ 5,543	$ 5,541
In-process research and development	80	80
Accumulated amortization	(4,865)	(4,680)
Intangible assets, net	$ 758	$ 941

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.

Product warranty liability

Changes in the warranty accrual were as follows:

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Warranty accrual, beginning of period	$ 408	$ 350
Charges to operations	35	49
Utilization	(31)	(48)
Changes in estimate related to pre-existing warranties	(21)	6
Warranty accrual, end of period	$ 391	$ 357

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

	October 2, 2020	July 3, 2020
	(in millions)	
Warranty accrual		
Current portion (included in Accrued expenses)	$ 191	$ 205
Long-term portion (included in Other liabilities)	200	203
Total warranty accrual	$ 391	$ 408

Other liabilities

	October 2, 2020	July 3, 2020
	(in millions)	
Other liabilities:		
Non-current net tax payable	$ 711	$ 815
Payables related to unrecognized tax benefits	715	720
Other non-current liabilities	885	881
Total other liabilities	$ 2,311	$ 2,416

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) ("AOCI"), 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 following table illustrates the changes in the balances of each component of AOCI:

	Actuarial Pension Gains (Losses)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Derivative Contracts	Total Accumulated Comprehensive Income (Loss)
	(in millions)			
Balance at July 3, 2020	$ (58)	$ (2)	$ (97)	$ (157)
Other comprehensive loss before reclassifications	1	32	18	51
Amounts reclassified from accumulated other comprehensive loss	—	—	12	12
Income tax benefit (expense) related to items of other comprehensive loss	—	—	(7)	(7)
Net current-period other comprehensive loss	1	32	23	56
Balance at October 2, 2020	$ (57)	$ 30	$ (74)	$ (101)

During the three months ended October 2, 2020 and October 4, 2019, the amounts reclassified out of AOCI related to derivative contracts were substantially all charged to Cost of revenue in the Condensed Consolidated Statements of Operations.

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 assets and liabilities that are measured at fair value on a recurring basis as of October 2, 2020 and July 3, 2020, and indicate the fair value hierarchy of the valuation techniques utilized to determine such values:

	October 2, 2020			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash equivalents - Money market funds	$ 861	$ —	$ —	$ 861
Foreign exchange contracts	—	24	—	24
Total assets at fair value	$ 861	$ 24	$ —	$ 885
Liabilities:				
Foreign exchange contracts	$ —	$ 10	$ —	$ 10
Interest rate swap contract	—	120	—	120
Total liabilities at fair value	$ —	$ 130	$ —	$ 130

	July 3, 2020			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash equivalents - Money market funds	$ 1,079	$ —	$ —	$ 1,079
Foreign exchange contracts	—	28	—	28
Total assets at fair value	$ 1,079	$ 28	$ —	$ 1,107
Liabilities:				
Foreign exchange contracts	$ —	$ 9	$ —	$ 9
Interest rate swap contract	—	133	—	133
Total liabilities at fair value	$ —	$ 142	$ —	$ 142

During the three months ended October 2, 2020 and October 4, 2019, the Company had no transfers of financial assets and liabilities between levels and there were no changes in valuation techniques and the inputs used in the fair value measurement.

Financial Instruments Not Carried at Fair Value

The carrying value of the Company's revolving credit facility approximates its fair value given the revolving nature of the balance and the variable market interest rate. 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 first quarter of 2021 and the fourth quarter of 2020, respectively.

	October 2, 2020		July 3, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
0.50% convertible senior notes due 2020	$ 35	$ 34	$ 34	$ 30
Variable interest rate Term Loan A-1 maturing 2023	4,514	4,427	4,576	4,474
Variable interest rate Term Loan B-4 maturing 2023	1,543	1,536	1,692	1,656
1.50% convertible notes due 2024	994	1,043	987	1,036
4.75% senior unsecured notes due 2026	2,286	2,475	2,286	2,428
Total	$ 9,372	$ 9,515	$ 9,575	$ 9,624

Note 6. Derivative Instruments and Hedging Activities

As of October 2, 2020, 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. In addition, the Company had outstanding pay-fixed interest rate swaps that were designated as cash flow hedges of variable rate interest payments on a portion of its term loans through February 2023.

As of October 2, 2020, the amount of existing net losses related to cash flow hedges recorded in AOCI included $70 million related to the Company's interest rate swaps that is expected to be reclassified to earnings after twelve months. In addition, as of October 2, 2020, the Company did not have any foreign exchange forward contracts with credit-risk-related contingent features.

Changes in fair values of the non-designated foreign exchange contracts are recognized in Other income, net and are largely offset by corresponding changes in the fair values of the foreign currency denominated monetary assets and liabilities. For each of the three months ended October 2, 2020 and October 4, 2019, 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.

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 October 2, 2020 and July 3, 2020, 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.

Note 7. Debt

Debt consisted of the following as of October 2, 2020 and July 3, 2020:

	October 2, 2020	July 3, 2020
	(in millions)	
0.50% convertible senior notes due 2020	$ 35	$ 35
Variable interest rate Term Loan A-1 maturing 2023	4,520	4,583
Variable interest rate Term Loan B-4 maturing 2023	1,543	1,693
1.50% convertible notes due 2024	1,100	1,100
4.75% senior unsecured notes due 2026	2,300	2,300
Total debt	9,498	9,711
Issuance costs and debt discounts	(126)	(136)
Subtotal	9,372	9,575
Less current portion of long-term debt	(286)	(286)
Long-term debt	$ 9,086	$ 9,289

The credit agreement governing the revolving credit facility and Term Loan A-1 requires the Company to comply with certain financial covenants, consisting of a leverage ratio and an interest coverage ratio. As of October 2, 2020, the Company was in compliance with these financial covenants.

During the three months ended October 2, 2020, the Company made a voluntary prepayment of $150 million on its Term Loan B-4. Subsequent to October 2, 2020, the 0.50% convertible notes due 2020 were settled in full in accordance with their terms.

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 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:

	October 2, 2020	July 3, 2020
	(in millions)	
Benefit obligation at end of period	$ 374	$ 366
Fair value of plan assets at end of period	221	215
Unfunded status	$ 153	$ 151

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

	October 2, 2020	July 3, 2020
	(in millions)	
Current liabilities	$ 1	$ 1
Non-current liabilities	152	150
Net amount recognized	$ 153	$ 151

Net periodic benefit costs were not material for the three months ended October 2, 2020.

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 as of October 2, 2020 and July 3, 2020:

	October 2, 2020	July 3, 2020
	(in millions)	
Notes receivable, Flash Partners	$ 271	$ 273
Notes receivable, Flash Alliance	231	301
Notes receivable, Flash Forward	597	670
Investment in Flash Partners	208	203
Investment in Flash Alliance	307	300
Investment in Flash Forward	132	128
Total notes receivable and investments in Flash Ventures	$ 1,746	$ 1,875

During the three months ended October 2, 2020 and October 4, 2019, the Company made net payments to Flash Ventures of $981 million and $682 million, respectively, for purchased flash-based memory wafers and net loans and investments.

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 October 2, 2020 and July 3, 2020, the Company had Accounts payable balances due to Flash Ventures of $404 million and $407 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 October 2, 2020, 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.

	October 2, 2020
	(in millions)
Notes receivable	$ 1,099
Equity investments	647
Operating lease guarantees	2,004
Inventory and prepayments	575
Maximum estimable loss exposure	$ 4,325

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.

In June 2019, an unexpected power outage incident occurred at the flash-based memory manufacturing facilities operated in Yokkaichi, Japan. The power outage incident impacted the facilities and process tools and resulted in damage to flash wafers in production and a reduction in the Company's flash wafer availability. As a result of this incident, the Company incurred charges of $68 million for the three months ended October 4, 2019, which were recorded in Cost of revenue and primarily consisted of unabsorbed manufacturing overhead costs. During the three months ended October 2, 2020, the Company received a recovery of $30 million related to this incident from its insurance carriers, which was recorded in Cost of revenue. The Company continues to pursue recovery of its losses associated with this event; however, the total amount of recovery cannot be estimated at this time.

In May 2019, the Company entered into additional agreements with Kioxia to extend Flash Ventures to a new wafer fabrication facility, known as "K1," located in Kitakami, Japan. The primary purpose of K1 is to provide clean room space to continue the transition of existing flash-based wafer capacity to newer technology nodes. Output from the initial production line at K1 began in the third quarter of fiscal year 2020, although meaningful output from K1 is not expected to begin until the end of calendar 2020. The Company has paid for most of its share of initial K1 equipment investments and relocation costs. Other period expenses associated with the initial production ramp at K1 are expected to begin trailing off toward the end of calendar year 2020 as output increases. The Company also agreed to prepay an aggregate of approximately $360 million over a 3-year period beginning in the first half of fiscal year 2020 toward K1 building depreciation, to be credited against future wafer charges. As of October 2, 2020, remaining committed prepayments totaled $178 million.

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 October 2, 2020.

	Lease Amounts	
	(Japanese yen, in billions)	*(U.S. dollar, in millions)*
Total guarantee obligations	¥ 211	$ 2,004

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 October 2, 2020 in U.S. dollars, based upon the Japanese yen to U.S. dollar exchange rate as of October 2, 2020:

Annual Installments	Payment of Principal Amortization	Purchase Option Exercise Price at Final Lease Terms	Guarantee Amount
		(in millions)	
Remaining nine months of 2021	$ 407	$ 80	$ 487
2022	469	51	520
2023	356	69	425
2024	194	123	317
2025	55	113	168
Thereafter	15	72	87
Total guarantee obligations	$ 1,496	$ 508	$ 2,004

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 October 2, 2020, no amounts have been accrued in the Condensed Consolidated Financial Statements with respect to these indemnification agreements.

Unis Venture

The Company has a joint venture with Unisplendour Corporation Limited and Unissoft (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 the three months ended October 2, 2020 and October 4, 2019, the Company recognized approximately 2% and 1%, respectively, of its consolidated revenue on products distributed by the Unis Venture. The outstanding accounts receivable due from and investment in the Unis Venture were 6% and 4% of Accounts receivable, net as of October 2, 2020 and July 3, 2020, respectively.

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 2034. 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 summarizes supplemental balance sheet information related to operating leases as of October 2, 2020:

	Lease Amounts
Minimum lease payments by fiscal year:	*(in millions)*
Remaining nine months of 2021	$ 35
2022	35
2023	29
2024	29
2025	27
Thereafter	144
Total future minimum lease payments	299
Less: Imputed Interest	(56)
Present value of lease liabilities	243
Less: Current portion (included in Accrued expenses)	37
Long-term operating lease liabilities (included in Other liabilities)	$ 206
Operating lease right-of-use assets (included in Other non-current assets)	$ 228
Weighted average remaining lease term in years	9.0
Weighted average discount rate	4.2 %

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Cost of operating leases	$ 13	$ 12
Cash paid for operating leases	12	16
Operating lease assets obtained in exchange for operating lease liabilities	7	49

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 October 2, 2020, the Company had the following minimum long-term commitments:

	Long-term commitments
	(in millions)
Fiscal year:	
Remaining nine months of 2021	$ 328
2022	596
2023	523
2024	322
2025	148
Thereafter	190
Total	$ 2,107

Note 11. Shareholders' Equity

Stock-based Compensation Expense

The following tables present the Company's stock-based compensation for equity-settled awards by type (i.e., stock options, 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	
	October 2, 2020	October 4, 2019
	(in millions)	
Options	$ —	$ 2
RSUs and PSUs	67	66
ESPP	9	9
Total	$ 76	$ 77

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Cost of revenue	$ 12	$ 12
Research and development	39	41
Selling, general and administrative	25	24
Subtotal	76	77
Tax benefit	(11)	(12)
Total	$ 65	$ 65

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 not material for the periods presented.

Compensation cost related to unvested stock options, RSUs, PSUs, and rights to purchase shares of common stock under the ESPP will generally be 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 October 2, 2020:

	Unamortized Compensation Costs	Weighted Average Service Period
	(in millions)	(years)
RSUs and PSUs [(1)]	$ 743	3.0
ESPP	29	0.8
Total unamortized compensation cost	$ 772	

[(1)] Weighted average service period assumes the performance metrics are met for the PSUs.

Plan Activities

Stock Options

The following table summarizes stock option activity under the Company's incentive plans:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in millions)		*(in years)*	*(in millions)*
Options outstanding at July 3, 2020	2.7	$ 69.16	2.1	$ —
Exercised	—	18.30		$ —
Canceled or expired	(0.2)	68.81		
Options outstanding at October 2, 2020	2.5	69.21	1.5	$ —
Exercisable at October 2, 2020	2.5	$ 69.21	1.5	$ —

RSUs and PSUs

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

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value at Vest Date
	(in millions)		*(in millions)*
RSUs and PSUs outstanding at July 3, 2020	13.3	$ 60.92	
Granted	7.9	37.86	
Vested	(3.7)	61.20	$ 149
Forfeited	(0.5)	65.04	
RSUs and PSUs outstanding at October 2, 2020	17.0	49.70	

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.

Stock Repurchase Program

The Company's Board of Directors has authorized a stock repurchase program for the repurchase of up to $5.0 billion of the Company's common stock, which authorization is effective through July 25, 2023. The Company did not make any stock repurchases during the three months ended October 2, 2020 and has not repurchased any shares of its common stock pursuant to its stock repurchase program since the first quarter of fiscal 2019. The remaining amount available to be repurchased under the Company's current stock repurchase program as of October 2, 2020 was $4.5 billion. Repurchases under the stock repurchase program may be made in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan. The Company expects stock repurchases to be funded principally by operating cash flows.

Dividends to Shareholders

The Company issued a quarterly cash dividend from the first quarter of fiscal 2013 up to the third quarter of fiscal 2020. In April 2020, the Company suspended its dividend to reinvest in the business and to support its ongoing deleveraging efforts.

Note 12. Income Tax Expense

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to the COVID-19 pandemic in the U.S. The CARES Act, among other things, allows net operating losses arising in tax years 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes and increases the business interest expense limitation from 30% to 50% of adjusted taxable income for tax years 2019 and 2020. Additionally, countries around the world continue to implement emergency tax measures to provide relief similar to the CARES Act. The Company at present does not expect that any of the provisions of the CARES Act or the emergency tax measures around the world would result in a material cash benefit. However, the Company continues to monitor and evaluate the regulatory and interpretive guidance related to the CARES Act as well as in other jurisdictions.

The Tax Cuts and Jobs Act (the "2017 Act"), enacted on December 22, 2017, includes a broad range of tax reform proposals affecting businesses. The Company completed its accounting for the tax effects of the enactment of the 2017 Act during the second quarter of fiscal 2019. However, the U.S. Treasury and the Internal Revenue Service ("IRS") have issued tax guidance on certain provisions of the 2017 Act since the enactment date, and the Company anticipates the issuance of additional regulatory and interpretive guidance. The Company applied a reasonable interpretation of the 2017 Act along with the then-available guidance in finalizing its accounting for the tax effects of the 2017 Act. Any additional regulatory or interpretive guidance would constitute new information, which may require further refinements to the Company's estimates in future periods.

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Loss before taxes	$ (3)	$ (237)
Income tax expense	57	39
Effective tax rate	(1,900)%	(16)%

The primary drivers of the difference between the effective tax rate for the three months ended October 2, 2020 and the U.S. Federal statutory rate of 21% are 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 fiscal years 2021 through 2030. In addition, the effective tax rate for the three months ended October 2, 2020 includes the discrete effects of net tax deficiencies from shortfalls of $11 million related to the vesting of stock-based awards and additional tax expense of $10 million from the re-measurement of purchase accounting deferred tax liabilities due to restructuring activities. The discrete items have no impact on the amount of income taxes paid by the Company.

The primary drivers of the difference between the effective tax rate for the three months ended October 4, 2019 and the U.S. Federal statutory rate of 21% are the relative mix of earnings and losses by jurisdiction, the deduction for foreign derived intangible income, credits, and tax holidays in Malaysia, Philippines and Thailand that expired or will expire at various dates during fiscal years 2020 through 2030.

The IRS previously completed its field examination of the Company's federal income tax returns for fiscal years 2008 through 2012 and proposed certain adjustments. As previously disclosed, the Company received Revenue Agent Reports from the IRS for fiscal years 2008 through 2009, proposing adjustments relating to transfer pricing with the Company's foreign subsidiaries and intercompany payable balances. The Company disagrees with the proposed adjustments and in September 2015, filed a protest with the IRS Appeals Office and received the IRS rebuttal in July 2016. The Company and the IRS Appeals Office did not reach a settlement on the disputed matters. On June 28, 2018, the IRS issued a statutory notice of deficiency with respect to the disputed matters for fiscal years 2008 through 2009, seeking to increase the Company's U.S. taxable income by an amount that would result in additional federal tax through fiscal year 2009 totaling approximately $516 million, subject to interest and penalties. The Company filed a petition with the U.S. Tax Court in September 2018. On December 10, 2018, the IRS issued a statutory notice of deficiency with respect to fiscal years 2010 through 2012, seeking to increase the Company's U.S. taxable income by an amount that would result in additional federal tax for fiscal years 2010 through 2012 totaling approximately $549 million, subject to interest and penalties. Approximately $535 million of the total additional federal tax for fiscal years 2010 through 2012 relates to proposed adjustments for transfer pricing with the Company's foreign subsidiaries, intercompany payable balances and the utilization of certain tax attributes. The Company filed a petition with the U.S. Tax Court in March 2019. The U.S. Tax Court consolidated the case for fiscal years 2008 through 2009 with the case for fiscal years 2010 through 2012. On May 4, 2020, the IRS filed with the U.S. Tax Court Amendments to Answer to assert penalties totaling $340 million on the proposed adjustments relating to transfer pricing with respect to fiscal years 2008 through 2009 and fiscal years 2010 through 2012. In September 2020, the IRS proposed adjustments relating to transfer pricing with the Company's foreign subsidiaries for fiscal years 2013 through 2015 that, if sustained, would result in additional federal tax totaling approximately $271 million. The Company disagrees with the proposed adjustments. The Company continues to believe that its tax positions are properly supported and will vigorously contest the position taken by the IRS.

The Company believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of 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 October 2, 2020, 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.

As of October 2, 2020, the liability for unrecognized tax benefits (excluding accrued interest and penalties) was approximately $711 million. Accrued interest and penalties related to unrecognized tax benefits as of October 2, 2020 was approximately $141 million. Of these amounts, approximately $715 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.

Note 13. Net Loss Per Common Share

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions, except per share data)	
Net loss	$ (60)	$ (276)
Weighted average shares outstanding:		
Basic and diluted	303	296
Loss per common share		
Basic and diluted	$ (0.20)	$ (0.93)
Anti-dilutive potential common shares excluded	16	15

The Company computes basic loss per common share using Net loss and the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed using Net loss and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include dilutive outstanding employee stock options, RSUs and PSUs, and rights to purchase shares of common stock under the Company's ESPP. For the three months ended October 2, 2020 and the three months ended October 4, 2019, the Company recorded net losses, and all shares subject to outstanding equity awards have been excluded for those periods because including them would be anti-dilutive.

Note 14. Employee Termination, Asset Impairment and Other Charges

The Company recorded the following charges related to employee termination benefits, asset impairment, and other charges:

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Employee termination and other charges:		
Closure of Foreign Manufacturing Facilities	$ —	$ 4
Business Realignment	23	4
Total employee termination, asset impairment, and other charges	$ 23	$ 8

Business Realignment

The Company periodically incurs charges as part of the integration process of recent acquisitions and 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 following table presents an analysis of the components of the activity against the reserve during the three months ended October 2, 2020:

	Employee Termination Benefits	Contract Termination and Other	Total
		(in millions)	
Accrual balance at July 3, 2020	$ 13	$ —	$ 13
Charges	20	2	22
Cash payments	(20)	(2)	(22)
Accrual balance at October 2, 2020	$ 13	$ —	$ 13

Note 15. Legal Proceedings

Tax

For disclosures regarding statutory notices of deficiency issued by the IRS on June 28, 2018 and December 10, 2018, and petitions filed by the Company with the U.S. Tax Court in September 2018 and March 2019, see Note 12, *Income Tax Expense.*

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 the Company'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 July 3, 2020. 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 that address the evolving needs of the information technology ("IT") industry and the infrastructure that enables the proliferation of data in virtually every other industry. We create environments for data to thrive. We drive the innovation needed to help customers capture, preserve, access and transform an ever-increasing diversity of data. Everywhere data lives, from advanced data centers to mobile sensors to personal devices, our industry-leading solutions deliver the possibilities of data.

Our broad portfolio of technology and products address the following key end markets: Client Devices; Data Center Devices and Solutions; and Client Solutions. We also generate license and royalty revenue from our extensive intellectual property ("IP"), which is included in each of these three end market categories.

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 2021, which ends on July 2, 2021, will be comprised of 52 weeks, with all quarters presented consisting of 13 weeks. Fiscal year 2020, which ended on July 3, 2020, was comprised of 53 weeks, with the first quarter consisting of 14 weeks and the remaining quarters consisting of 13 weeks each.

Key Developments

Business Structure

Late in the first quarter of fiscal 2021, we announced a decision to reorganize our business by forming two separate product business units: flash-based products and hard disk drive ("HDD"). The new structure is intended to provide each business unit with focus and responsibility for identifying current and future customer requirements while driving the strategy, roadmap, pricing and overall profitability for their respective product areas. Beginning in the second fiscal quarter, we are in the process of transitioning to this new operating model and discrete information has not yet been established to align with the new business structure. We are developing new reporting processes to support the new business structure and evaluating the impact of these changes on our discussion and analysis of our financial condition and results of operations in the future.

COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a pandemic, and the United States declared a national emergency. In the intervening months, COVID-19 has spread globally and led governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to reduce its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business limitations and closures (subject to exceptions for essential operations and businesses), quarantines and shelter-in-place orders. Although some of these governmental restrictions have since been lifted or scaled back, a recent surge of COVID-19 infections has resulted in the re-imposition of certain restrictions and may lead to other restrictions being re-implemented in response to efforts to reduce the spread of COVID-19. These measures may remain in place for a significant amount of time. In light of these events, we have taken actions to protect the health and safety of our employees while continuing to serve our global customers as an essential business. We have implemented more thorough sanitation practices as outlined by health organizations and instituted social distancing policies at our locations around the world, including working from home, limiting the number of employees attending meetings, reducing the number of people in our sites at any one time, and suspending employee travel. In addition, the responses to COVID-19 taken by others in the supply chain have impacted our operations. As a result, we have incurred charges of approximately $28 million during the three months ended October 2, 2020, primarily related to higher logistics costs, which were recorded in cost of revenue.

As an essential business, we continue to provide products and solutions that enable the proliferation of data and facilitate the sharing of information remotely, which has become more critical as much of the world is interacting from areas of self-isolation. Generally, demand for our products remains solid. During the three months ended October 2, 2020, we experienced lower sales in some of our capacity enterprise and Client Devices products as customers absorbed purchases made in recent quarters but we also experienced increased sales in retail as COVID-19 restrictions eased, more brick and mortar businesses resumed operations, the work and learn from home trend increased hard drive demand for desktops and notebooks, and gaming increased. Looking forward, we see positive indications of the progression of 5G ramp and the growth of gaming. We also currently expect retail demand to be solid in the near term and HDD to improve as customers absorb recent purchases and we ramp sales as we complete new product qualifications. However, the COVID-19 environment remains dynamic and we cannot predict the duration of the pandemic and how demand may change as it develops.

We will continue to actively monitor the situation and may take further actions altering our business operations that we determine are in the best interests of our employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities. See *"The COVID-19 pandemic could adversely affect our business, results of operations and financial condition"* in Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended July 3, 2020 for more information regarding the risks we face as a result of the COVID-19 pandemic.

Flash Ventures

Through our three business ventures with Kioxia Corporation ("Kioxia"), referred to as "Flash Ventures", we and Kioxia operate flash-based memory wafer manufacturing facilities in Japan. We are obligated to pay for variable costs incurred in producing our share of Flash Ventures' flash-based memory wafer supply, based on our three-month forecast, which generally equals 50% of Flash Ventures' output. In addition, we are obligated to pay for half of Flash Ventures' fixed costs regardless of the output we choose to purchase. We are also obligated to fund 49.9% to 50% of each Flash Ventures entity's capital investments to the extent that Flash Ventures entity's operating cash flow is insufficient to fund these investments. We also co-develop flash technologies (including process technology and memory design) with Kioxia and contribute IP for Flash Ventures' use.

Since its inception, Flash Ventures' primary manufacturing site has been located in Yokkaichi, Japan, which currently includes five wafer fabrication facilities. Production levels at the Yokkaichi site were temporarily reduced as a result of an unexpected power outage incident that occurred in the Yokkaichi region on June 15, 2019. The power outage incident impacted the facilities and process tools and resulted in damage to flash wafers in production. The incident resulted in a reduction of our flash wafer availability by approximately 4 exabytes. As a result of this power outage incident, we incurred charges of $68 million recorded in Cost of revenue in the three months ended October 4, 2019, which primarily consisted of unabsorbed manufacturing overhead costs. During the three months ended October 2, 2020, we received a recovery of $30 million related to this incident from our insurance carriers, which was recorded in Cost of revenue. We continue to pursue recovery of our losses associated with this event; however, the total amount of recovery cannot be estimated at this time.

In May 2019, we entered into additional agreements with Kioxia to extend Flash Ventures to a new wafer fabrication facility, known as "K1," located in Kitakami, Japan. The primary purpose of K1 is to provide clean room space to continue the transition of existing flash-based wafer capacity to newer technology nodes. Output from the initial production line at K1 began in the third quarter of fiscal year 2020, although meaningful output from K1 is not expected to begin until the end of calendar 2020. We have paid for most of our share of initial K1 equipment investments and relocation costs. Other period expenses associated with the initial production ramp at K1 are expected to begin trailing off toward the end of calendar year 2020 as output increases. Other period expenses associated with the initial production ramp at K1 will begin trailing off as output increases toward the end of the calendar year. We also agreed to prepay an aggregate of approximately $360 million over a 3-year period beginning in the first half of fiscal year 2020 toward K1 building depreciation, to be credited against future wafer charges. As of October 2, 2020, remaining committed prepayments totaled $178 million.

In October 2020, Kioxia announced the start of construction of the shell for a new fabrication facility in Yokkaichi, Japan, referred to as "Y7". We expect to continue Flash Ventures investments into Y7 in due course, following the completion of agreements with Kioxia governing the construction and operation of the new facility and according to then-prevailing market trends.

Results of Operations

First Quarter 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[1]:

	Three Months Ended					
	October 2, 2020		October 4, 2019		$ Change	% Change
	($ in millions)					
Revenue, net	$ 3,922	100.0 %	$ 4,040	100.0 %	$ (118)	(3)%
Cost of revenue	3,018	77.0	3,282	81.2	(264)	(8)
Gross profit	904	23.0	758	18.8	146	19
Operating Expenses:						
Research and development	555	14.2	574	14.2	(19)	(3)
Selling, general and administrative	256	6.5	305	7.5	(49)	(16)
Employee termination, asset impairment, and other charges	23	0.6	8	0.2	15	188
Total operating expenses	834	21.3	887	22.0	(53)	(6)
Operating income (loss)	70	1.8	(129)	(3.2)	199	(154)
Interest and other income (expense):						
Interest income	2	0.1	12	0.3	(10)	(83)
Interest expense	(84)	(2.1)	(122)	(3.0)	38	(31)
Other income (expense), net	9	0.2	2	—	7	350
Total interest and other expense, net	(73)	(1.9)	(108)	(2.7)	35	(32)
Loss before taxes	(3)	(0.1)	(237)	(5.9)	234	(99)
Income tax expense	57	1.5	39	1.0	18	46
Net loss	$ (60)	(1.5)	$ (276)	(6.8)	216	(78)

(1) Percentages may not total due to rounding.

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Revenue by Product		
Hard disk drives ("HDD")	$ 1,844	$ 2,408
Flash-based	2,078	1,632
Total Revenue	$ 3,922	$ 4,040
Revenue by End Market		
Client Devices	$ 1,946	$ 1,616
Data Center Devices & Solutions	1,129	1,532
Client Solutions	847	892
Total Revenue	$ 3,922	$ 4,040
Revenue by Geography		
Americas	$ 1,079	$ 1,313
Europe, Middle East and Africa	629	779
Asia	2,214	1,948
Total Revenue	$ 3,922	$ 4,040

Net Revenue

Net revenue decreased 2.9% for the three months ended October 2, 2020 compared to the three months ended October 4, 2019. The decrease in net revenue for the three months ended October 2, 2020 from the comparable period in the prior year reflects lower volumes of memory for HDD products and more competitive pricing for both HDD and flash products, which contributed approximately 9 and 5 percentage points of decline, respectively, and which were partially offset by higher volumes of flash products sold. Client Devices revenue increased 20% year over year. Higher volumes of flash memory contributed 38 percentage points of growth, primarily from client compute SSD due to increased demand for SSD-based notebook and desktop products resulting from work from home and remote learning trends as well as significant growth in gaming as upcoming game consoles transition from hard drive-based storage solutions to flash. These increases were partially offset by lower average pricing on both HDD and flash products. Our revenue for Data Center Devices and Solutions decreased 26% year over year, which predominantly reflected lower volumes of both HDD and flash-based products as Cloud and OEM customers absorbed some of the capacity purchased in recent quarters and as we continued to ramp up new product transitions in hard drive and flash-based storage solutions. Client Solutions revenue decreased 5% year over year with more competitive pricing driving approximately 8 percentage points of decline, primarily in retail flash products, partially offset by volume growth in both flash and hard drive-based products driven by increased demand for our products that support both remote learning and work from home applications.

The changes in net revenue by geography reflect an increase in Asia primarily driven by our increased sales of mobility products to manufacturers in the Asia region, and a decrease in the Americas driven by lower sales of capacity enterprise products.

Our top 10 customers accounted for 44% and 43% of our net revenue for the three months ended October 2, 2020 and October 4, 2019, respectively. For the three months ended October 2, 2020, no single customer accounted for 10% or more of our net revenue. For the three months ended October 4, 2019, one customer accounted for 11% 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. For the three months ended October 2, 2020 and October 4, 2019, these programs represented 18% and 15%, respectively, of gross revenues, and adjustments to revenue due to changes in accruals for these programs have generally averaged less than 1% of gross revenue year over year. 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. 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

Gross profit increased by $146 million for the three months ended October 2, 2020 from the comparable period in the prior year, which primarily reflects the power outage charges of $68 million incurred in the prior year, the $30 million partial recovery in the current year, a $19 million decrease in charges in the current year related to amortization expense on acquired intangible assets and reduced manufacturing costs. These improvements were partially offset by COVID-19 related costs incurred in the current quarter.

Gross margin increased approximately 4 percentage points for the three months ended October 2, 2020 from the comparable period in the prior year, which primarily reflects the impacts of the lower charges noted above as well as reduced manufacturing costs as we ramp production of new products. Over the near term, we expect gross margin to be constrained by lower-margin retail products but expect improved gross margins over the longer term as we complete new product qualifications and ramp production on higher capacity drives.

Operating Expenses

Research and development ("R&D") expense decreased $19 million for the three months ended October 2, 2020 from the comparable period in the prior year primarily reflecting additional expense related to the additional week in the prior year.

Selling, general and administrative ("SG&A") expense decreased $49 million for the three months ended October 2, 2020 from the comparable period in the prior year primarily reflecting a $10 million reduction of expenses related to the additional week in the prior year, approximately $10 million in lower costs in the current year for travel and entertainment and marketing expenses as a result of COVID-19 as well as savings from the exit of our storage systems business and our cost reduction actions.

Employee termination, asset impairment and other charges increased from the comparable period in the prior year as we initiated incremental actions to align our operations with current market demand. For information regarding employee termination, asset impairment and other charges, see Part I, Item 1, Note 14, *Employee Termination, Asset Impairment and Other Charges*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Interest and Other Income (Expense)

The decrease in total interest and other expense, net for the three months ended October 2, 2020 primarily reflects lower interest expense resulting from the pay-down of principal on our debt and lower index rates.

Income Tax Expense

The Tax Cuts and Jobs Act (the "2017 Act") includes a broad range of tax reform proposals affecting businesses. We completed our accounting for the tax effects of the enactment of the 2017 Act during the second quarter of fiscal 2019. However, the U.S. Treasury and the Internal Revenue Service ("IRS") have issued tax guidance on certain provisions of the 2017 Act since the enactment date, and we anticipate the issuance of additional regulatory and interpretive guidance. We applied a reasonable interpretation of the 2017 Act along with the then-available guidance in finalizing our accounting for the tax effects of the 2017 Act. Any additional regulatory or interpretive guidance would constitute new information, which may require further refinements to our estimates in future periods.

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

	Three Months Ended	
	October 2, 2020	October 4, 2019
	($ in millions)	
Loss before taxes	$ (3)	$ (237)
Income tax expense	57	39
Effective tax rate	(1,900)%	(16)%

The primary drivers of the difference between the effective tax rate for the three months ended October 2, 2020 and the U.S. Federal statutory rate of 21% are 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 fiscal years 2021 through 2030. In addition, the effective tax rate for the three months ended October 2, 2020 includes the discrete effects of net tax deficiencies from shortfalls of $11 million related to the vesting of stock-based awards and additional tax expense of $10 million from the re-measurement of purchase accounting deferred tax liabilities due to restructuring activities. The discrete items have no impact on the amount of income taxes paid by us.

The primary driver of the difference between the effective tax rate for the three months ended October 4, 2019 and the U.S. Federal statutory rate of 21% are the relative mix of earnings and losses by jurisdiction, the deduction for foreign derived intangible income, credits, and tax holidays in Malaysia, Philippines and Thailand that expired or will expire at various dates during fiscal years 2020 through 2030.

Our future effective tax rate is subject to future regulatory developments and changes in the mix of our U.S. earnings compared to foreign earnings. Our total tax expense in future fiscal years may also vary as a result of discrete items such as excess tax benefits or deficiencies.

For additional information regarding Income tax expense (benefit), 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:

	Three Months Ended	
	October 2, 2020	October 4, 2019
	(in millions)	
Net cash provided by (used in):		
Operating activities	$ 363	$ 253
Investing activities	(166)	34
Financing activities	(253)	(492)
Effect of exchange rate changes on cash	3	(2)
Net decrease in cash and cash equivalents	$ (53)	$ (207)

We believe our cash, cash equivalents and cash generated from operations as well as our available credit facilities will be sufficient to meet our working capital, debt and capital expenditure needs for at least the next twelve months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part I, Item 1A, *Risk Factors,* in our Annual Report on Form 10-K for the fiscal year ended July 3, 2020.

During fiscal 2021, we expect expenditures for property, plant and equipment for our company plus our portion of the capital expenditures by our Flash Ventures joint venture with Kioxia for its operations to aggregate approximately $3.1 billion. After consideration of the Flash Ventures' lease financing of its capital expenditures and net operating cash flow, we expect net cash used for our purchases of property, plant and equipment and net activity in notes receivable relating to Flash Ventures to be a cash outflow of approximately $1.3 billion during fiscal 2021. The total expected cash to be used could vary depending on the timing and completion of various capital projects and the availability, timing and terms of related financing.

During fiscal 2019, we determined that it was our intention to repatriate all of our foreign undistributed earnings as a result of the 2017 Act, except a portion of our foreign undistributed earnings, which could result in additional federal taxes based on interpretive guidance issued by the IRS. After consideration of this interpretative guidance affecting the taxation of a certain portion of our foreign undistributed earnings, we determined that we do not intend to repatriate this portion of our foreign undistributed earnings and did not establish an accrual for this liability.

A total of $1.97 billion and $2.60 billion of our Cash and cash equivalents was held outside of the U.S. as of October 2, 2020 and October 4, 2019, respectively. As a result of the change in our permanent reinvestment assertion, there are no material tax consequences that were not previously accrued for on the repatriation of this cash.

Operating Activities

Cash flow from operating activities primarily consists of net income, adjusted for non-cash charges, plus or minus changes in operating assets and liabilities. This represents our principal source of cash. Net cash used for changes in operating assets and liabilities was $43 million for the three months ended October 2, 2020, as compared to $82 million of net cash used for changes in operating assets and liabilities for the three months ended October 4, 2019. Changes in our operating assets and liabilities are largely affected by our working capital requirements, which are dependent on the effective management of our cash conversion cycle as well as 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:

	Three Months Ended	
	October 2, 2020	**October 4, 2019**
	(in days)	
Days sales outstanding	49	35
Days in inventory	101	98
Days payables outstanding	(71)	(67)
Cash conversion cycle	79	66

Changes in days sales outstanding ("DSO") are generally due to the linearity of shipments. Changes in days in inventory ("DIO") are generally related to the timing of inventory builds. 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 modify the timing of payments to our vendors. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances. Generally, we make the payment term modifications through negotiations with our vendors or by granting to, or receiving from, our vendors' payment term accommodations.

For the three months ended October 2, 2020, DSO increased by 14 days over the prior year, primarily reflecting the timing of shipments and customer collections. We have seen no significant deterioration in our receivables as a result of COVID-19. DIO increased by 3 days over the prior year, primarily reflecting higher stocking levels of HDD inventory. With supply chains experiencing disruptions as a result of COVID-19, we are taking actions to ensure that we have the components we need to build products and are stocking higher levels of inventory so that we can ship by ocean and reduce higher cost air freight. DPO increased by 4 days over the prior year, primarily reflecting resumptions of flash production volumes as well as routine variations in the timing of purchases and payments during the period.

Investing Activities

Net cash used in investing activities for the three months ended October 2, 2020 primarily consisted of a $163 million net decrease in notes receivable issuances to Flash Ventures, partially offset by $337 million of capital expenditures. Net cash used in investing activities for the three months ended October 4, 2019 primarily consisted of $277 million of capital expenditures and a net $186 million decrease in notes receivable issuances to Flash Ventures to fund its capital expansion.

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 invest directly in U.S. Treasury securities, U.S. and international government agency securities, certificates of deposit, asset backed securities and corporate and municipal notes and bonds.

Financing Activities

During the three months ended October 2, 2020, net cash used in financing activities primarily consisted of $213 million for repayment of debt, which included a $150 million voluntary prepayment on our Term Loan B-4, and $41 million for taxes paid on vested stock awards under employee stock plans. Net cash used in financing activities for the three months ended October 4, 2019 primarily consisted of $319 million for the repayment of our debt, $147 million to pay dividends on our common stock and $52 million for taxes paid on vested stock awards under employee stock plans.

In April 2020, we suspended our dividend to reinvest in the business and to support our ongoing deleveraging efforts. We will reevaluate our dividend policy as our leverage ratio improves.

Off-Balance Sheet Arrangements

Other than the commitments related to Flash Ventures incurred in the normal course of business and certain indemnification provisions (see “Short and Long-term Liquidity-Contractual Obligations and 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 and our joint venture with Unisplendour Corporation Limited and Unissoft (Wuxi) Group Co. Ltd. (“Unis”), referred to as the “Unis Venture”, 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

Contractual Obligations and Commitments

The following is a summary of our known contractual cash obligations and commercial commitments as of October 2, 2020:

	Total	Remaining nine months of 2021	2022-2023	2024-2025	Beyond 2025
			(in millions)		
Long-term debt, including current portion[1]	$ 9,498	$ 223	$ 5,875	$ 1,100	$ 2,300
Interest on debt	1,039	182	513	235	109
Flash Ventures related commitments[2]	6,420	2,643	2,590	1,014	173
Operating leases	299	35	64	56	144
Purchase obligations and other commitments	4,370	2,556	1,154	470	190
Mandatory Deemed Repatriation Tax	925	—	210	417	298
Total	$ 22,551	$ 5,639	$ 10,406	$ 3,292	$ 3,214

(1) Principal portion of debt, excluding discounts and issuance costs.
(2) 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.

Debt

In addition to our existing debt, we have $2.25 billion available for borrowing under our revolving credit facility, subject to customary conditions under the credit agreement. Additional information regarding our indebtedness, including information about availability under our revolving credit facility and the principal repayment terms, interest rates, covenants and other key terms of our outstanding indebtedness, is included in Part I, Item 1, Note 6, *Debt,* of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and in Part II, Item 8, Note 7, *Debt*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 3, 2020. The credit agreement governing our revolving credit facility and Term Loan A-1 requires us to comply with certain financial covenants, consisting of a leverage ratio and an interest coverage ratio. As of October 2, 2020, we were in compliance with these financial covenants.

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 October 2, 2020, 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

The following is a summary of our estimated mandatory deemed repatriation tax obligations that are payable in the following fiscal years (in millions):

		October 2, 2020
Remainder of fiscal 2021	$	—
2022		106
2023		104
2024		179
2025		238
2026		298
Total	$	925

For additional information regarding our estimate of the total tax liability for the mandatory deemed repatriation tax, see Part II, Item 8, Note 13, *Income Tax Expense*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2019.

Unrecognized Tax Benefits

As of October 2, 2020, the liability for unrecognized tax benefits (excluding accrued interest and penalties) was approximately $711 million. Accrued interest and penalties related to unrecognized tax benefits as of October 2, 2020 was approximately $141 million. Of these amounts, approximately $715 million could result in potential cash payments. We are not able to provide a reasonable estimate of the timing of future tax payments related to these obligations.

Interest Rate Swap

We have generally held a balance of fixed and variable rate debt. At October 2, 2020, we had $6.06 billion of variable rate debt, comprising 64% of the par value of our debt. To balance the portfolio and moderate our exposure to fluctuations in interest rates underlying our variable debt, we entered into pay-fixed interest rate swaps on $2.00 billion notional amount, which effectively converts a portion of our term loan to fixed rates through February 2023. After giving effect to the $2.00 billion of interest rate swaps, we effectively had $4.06 billion of Long-term debt subject to variations in interest rates and a one percent increase in the variable rate of interest would increase annual interest expense by $41 million.

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. For a description of our current foreign exchange contract commitments, see Part I, Item 1, Note 6, *Derivative Instruments and Hedging Activities*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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 IP infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will 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.

Stock Repurchase Program

Our Board of Directors has authorized a stock repurchase program for the repurchase of up to $5.0 billion of our common stock, which authorization is effective through July 25, 2023. We did not make any stock repurchases during the three months ended October 2, 2020 and have not repurchased any shares of our common stock pursuant to our stock repurchase program since the first quarter of fiscal 2019. Although we will reevaluate the repurchasing of our common stock when appropriate, there can be no assurance if, when or at what level we may resume such activity. The remaining amount available to be repurchased under our current stock repurchase program as of October 2, 2020 was $4.5 billion. Repurchases under the stock repurchase program may be made in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan.

Cash Dividend

We issued a quarterly cash dividend from the first quarter of fiscal 2013 through the third quarter of fiscal 2020. In April 2020, we suspended our dividend to reinvest in the business and to support our ongoing deleveraging efforts. We will reevaluate our dividend policy as our leverage ratio improves.

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 fiscal year ended July 3, 2020. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 3, 2020 for a discussion of our critical accounting policies and estimates.

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

There have been no material changes to our market risk during the three months ended October 2, 2020. For a discussion of our exposure to market risk, see Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended July 3, 2020.

Item 4. ***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.

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We are implementing an enterprise resource planning (“ERP”) system on a worldwide basis, which is expected to improve the efficiency of certain financial and related transactional processes. The gradual implementation is expected to occur in phases over the next several years. We have completed the implementation of certain processes, including the financial consolidation and reporting, fixed assets, supplier management and indirect procure-to-pay processes, and have revised and updated the related controls. These changes did not materially affect our internal control over financial reporting. As we implement the remaining functionality under this ERP system over the next several years, we will continue to assess the impact on our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

None.

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 fiscal year ended July 3, 2020 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 our Annual Report on Form 10-K for the fiscal year ended July 3, 2020. 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 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
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-08703) with the Securities and Exchange Commission on February 8, 2006)
3.2	Amended and Restated By-Laws of Western Digital Corporation, as amended effective as of May 2, 2018 (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 May 7, 2018)
10.1	Special Retention Agreement, dated as of August 26, 2019, with Michael C. Ray†*
10.2	Confidential Separation and General Release Agreement, dated as of August 14, 2020, with Michael D. Cordano†*
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	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**
32.2	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
Vice President, Global Accounting and Chief Accounting Officer
(Principal Accounting Officer)

Dated: November 6, 2020

Exhibit 10.1

Western Digital

Western Digital Corporation
5601 Great Oaks Parkway
San Jose, California 95119

August 26, 2019

Personal & Confidential

Mr. Michael C. Ray
[address redacted]

Re: Special Retention Agreement

Dear Michael,

Western Digital Corporation (the "Company") values the critical nature of the work you perform as Executive Vice President, Chief Legal Officer and Secretary, and your contributions and leadership are important to the Company's success. To encourage you to continue to devote your full attention and dedication to the success of the Company, we are pleased to offer you the following compensation adjustments and certain other compensation-related actions for the purpose of your retention with the Company.

Annual Base Salary

Your annual base salary will increase to US$625,000, effective on August 12, 2019 (hereinafter, the "Effective Date").

FY20 Annual LTI Award Commitment

Contingent upon approval by the Compensation Committee of the Board of Directors (the "Committee") and your continued employment through the Grant Date, we will recommend a fiscal year 2020 (FY20) LTI Award for you with a grant date value of US$3,125,000. The LTI Award grant date value will be converted to a number of stock units (rounded down to the nearest whole number) based on the closing price of a share of the Company's common stock as of the Grant Date (or the last such closing price preceding the Grant Date if the Grant Date is not a trading day). Your FY20 LTI Award will be presented to the Committee for final approval of the grant terms at the Committee meeting scheduled for September 4, 2019, which is the planned Grant Date. The number of stock units covered by your FY20 LTI Award will be split between 50% restricted stock units ("RSUs") and 50% performance stock units ("PSUs"), which is also subject to approval by the Committee. The RSUs and PSUs will be subject to vesting requirements and other terms and conditions as approved by the Committee.

Your Annual LTI Awards in future years, including the award values, form of award (mix of RSUs, PSUs or such other equity awards types), and other award terms are subject to change and will be determined at the discretion of the Committee.

Cash Retention Bonus

You will receive a Cash Retention Bonus opportunity in the aggregate amount of US$2,000,000 ("Retention Bonus"), of which US$500,000 ("Initial Retention Bonus") will vest (except as provided in the last sentence of this paragraph) on the Effective Date and US$500,000 ("Annual Retention Bonus") will vest on each of the next three anniversaries of the Effective Date. Each installment of the Retention Bonus that vests will be paid within 30 days following the corresponding vesting date and will be subject to deductions for applicable taxes and certain other payroll deductions. Except as provided herein, payment of the Initial Retention Bonus or any Annual Retention Bonus amounts are subject to your continued employment with the Company through the applicable vesting date. If you voluntarily terminate your employment with the Company for any reason prior to August 12, 2020, you will promptly repay the Initial Bonus to the Company.

Western Digital Severance Plans

Notwithstanding anything to contrary herein, if you become eligible to receive any severance benefits under the Western Digital Corporation Executive Severance Plan or the Western Digital Corporation Amended and Restated

Change of Control Severance Plan (collectively, “Severance Plans”), you will also become eligible (subject to the release requirement noted below) to receive any previously unvested portion of the Cash Retention Bonus (representing the “Accelerated Bonus Payment”) in addition to any compensation or benefits you would otherwise receive under the applicable Severance Plans. The Accelerated Bonus Payment shall be paid to you in a lump-sum payment, subject to deductions for applicable taxes and certain other payroll deductions, within sixty calendar days following the date your employment terminates, provided that you satisfy any applicable release requirement to receive severance benefits under the applicable Severance Plan. For the avoidance of doubt, if the provisions in this paragraph apply prior to the first anniversary of the Effective Date, you will vest in and have no obligation to repay the Initial Retention Bonus.

Compliance with IRS Section 409A

This agreement shall be construed and interpreted to satisfy, and avoid any tax, penalty or interest under, Section 409A of the U.S. Internal Revenue Code of 1986, as amended.

* * * * * * * * * * *

Please let me know if you have any questions about this Special Retention Agreement. Otherwise, please sign below to acknowledge that you have read, understand and agree to the terms set forth herein. This agreement shall be effective on the date indicated below.

Sincerely,

/s/Lori Sundberg

Lori S. Sundberg
EVP & Chief Human Resources Officer
Western Digital Corporation

Copy to: Stephen D. Milligan, Chief Executive Officer

Acknowledged and Agreed:

By:	/s/ Michael Ray	8-26-19
	Michael C. Ray	**Date**

CONFIDENTIAL SEPARATION AND GENERAL RELEASE AGREEMENT

In consideration of the covenants undertaken and releases contained in this Confidential Separation and General Release Agreement (this "Agreement"), Mike Cordano ("Executive") and Western Digital Technologies, Inc., a Delaware corporation, including its parent company and any related entities and subsidiaries (collectively referred to as "Western Digital"), agree as follows:

1. Separation from and Termination of Employment. Executive's employment with Western Digital and its affiliated and subsidiary businesses is terminated for all purposes effective August 14, 2020 ("Separation Date"). All salary, compensation, benefits and perquisites of employment ceased as of the Separation Date. Executive represents and agrees that he submitted his final expense report, if any, prior to the Separation Date, which Western Digital shall reimburse (to the extent not previously paid) in the ordinary course of business. Within thirty (30) days following the Separation Date, Executive shall receive payment in an amount equal to (a) all final amounts owed to Executive for Executive's regular and usual base salary (if any), and (b) all final amounts owed to Executive for Executive's earned and accrued but unpaid bonuses (if any), in accordance with the terms of the applicable bonus plan (in each case to the extent not previously paid). Executive is not required to sign this Agreement in order to receive the compensation and expense reimbursement described in this Section 1. All payments due to Executive from Western Digital after the Separation Date shall be determined under this Agreement.

2. Separation Benefits.

(a) The benefits ("Separation Benefits") provided under Section 2 of this Agreement are intended to be consistent with the Western Digital Corporation Executive Severance Plan, as such plan may be amended from time to time. Provided that Executive executes and delivers this Agreement to Western Digital and does not revoke this Agreement within the seven (7) day revocation period following the date Executive signs this Agreement, Western Digital shall pay or provide, as the case may be, the following Separation Benefits:

A. Severance Benefit. Executive will receive a payment of **$1,600,000**, less standard withholdings and authorized deductions, representing twenty-four (24) months of pay, which payment shall be made on or within thirty (30) days following the Separation Date ("Severance Payment").

B. COBRA Payment. Executive shall receive a cash lump sum payment of $**36,375**, less required tax withholdings and authorized deductions, which represents a payment equal to the equivalent of eighteen (18) months' payment for health care continuation costs under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") ("COBRA Payment"). Such payment shall be made on or within thirty (30) days following the Separation Date. Executive understands that Executive remains responsible for working with Western Digital's outside benefits administrator to elect COBRA benefits and must timely elect coverage in order to be eligible for COBRA benefits, should Executive elect COBRA. A COBRA election form and enrollment package will be mailed to Executive's home address approximately two weeks after the end of the month in which Executive's Separation Date occurs. Enrollment is not automatic. Executive understands that Executive must apply within sixty (60) days after the Separation Date or the date of Executive's notification letter, whichever is later, or Executive will forfeit Executive's right to COBRA coverage.

C. Incentive Payment. Executive acknowledges and agrees that, except as set forth in this Section 2(a).C., he has been paid all incentive payments he is owed by Western Digital through the Separation Date. Although Executive has not earned the Short Term Incentive (STI) compensation pursuant to the Western Digital Corporation Executive Short Term Incentive Plan fiscal year 2021 (FY21), the Company will pay the Executive the amount of **$115,384.62**, less applicable taxes and withholdings, which payment assumes a 100% achievement of Executive's Target Incentive under the STI plan for FY21 prorated through the Separation Date.

D. Options. Executive's then outstanding stock options, if any, shall vest and become exercisable as to any such stock options that would have vested if Executive had remained employed with Western Digital through February 14, 2021. Notwithstanding anything to the contrary herein, the exercisability of Executive's outstanding stock options shall continue to be governed by the stock incentive plans and stock option agreements applicable to such options. To the extent that any stock option is exercisable by the Executive on the Executive's Severance Date, it may be exercised by the Executive at any time within three months following the Executive's Severance Date (subject to earlier termination at the end of the option term or in connection with a change in control of Western Digital as provided in the applicable option documentation). Any stock option, to the extent it is exercisable for the three-month period following the Executive's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-month period. Notwithstanding anything to the contrary herein, Executive shall not be entitled to any further continued vesting under any stock option award following the Severance Date, and the Severance Date shall be deemed to be Executive's "Severance Date" for purposes of any outstanding stock option award agreements.

E. Restricted Stock Units. Executive's then outstanding and unvested time-based restricted stock units granted prior to August 30, 2018, if any, shall vest and become payable as to any such units that would have vested if Executive had remained employed with Western Digital through February 14, 2021. Executive's restricted stock units granted on August 30, 2018 that are subject to only time-based vesting requirements and are outstanding and unvested on the Separation Date shall vest and become payable on March 1, 2021 as to any such units that would have vested after the Separation Date if Executive had remained employed with Western Digital through February 14, 2021. Executive's restricted stock units granted on September 4, 2019, that are subject to only time-based vesting requirements and are outstanding and unvested on the Separation Date shall vest on a pro rata basis and become payable on March 1, 2021 in accordance with the Notice of Grant of Restricted Stock Units and Restricted Stock Unit Award Agreement – Vice President and Above and Standard Terms and Conditions for Restricted Stock Unit Award – Vice President and Above. Executive will be subject to any applicable tax withholdings on this income. Any restricted stock unit that remains unvested as of the Separation Date (and is not to vest upon March 1, 2021) after giving effect to the acceleration contemplated by the preceding provisions of this Section 2(a).E shall terminate as of the Separation Date and Executive shall have no further right with respect thereto or in respect thereof. Notwithstanding anything to the contrary herein, Executive shall not be entitled to any further continued vesting under any restricted stock unit award following the Severance Date, and the Severance Date shall be deemed to be Executive's "Severance Date" for purposes of any outstanding restricted stock unit award agreements.

F. Performance Stock Units. Executive's performance stock units ("PSUs") granted on August 30, 2018 that are outstanding and unvested on the Separation Date shall be prorated and will become vested on August 30, 2021 (the scheduled vesting date) with respect to the number of stock units credited by the Compensation and Talent Committee of the Board of Directors of Western Digital in the ordinary course (as well as any accrued dividend equivalents thereon, to the extent applicable), and prorated as referenced above, in accordance with the Notice of Grant of Performance Stock Units and Performance Stock Unit Award Agreement (for each Financial and TSR Measures) and Standard Terms and Conditions for Performance Stock Unit Award (for each Financial and TSR Measures). In addition, Executive's PSUs granted on September 4, 2019 that are outstanding and unvested on the Separation Date shall be prorated and will become vested on September 4, 2022 (the scheduled vesting date) with respect to the number of stock units credited by the Compensation and Talent Committee of the Board of Directors of Western Digital in the ordinary course (as well as any accrued dividend equivalents thereon, to the extent applicable), and prorated as referenced above, in accordance with the Notice of Grant of Performance Stock Units and Performance Stock Unit Award Agreement (for each Financial and TSR Measures) and Standard Terms and Conditions for Performance Stock Unit Award (for each Financial and TSR Measures). PSU payments will be subject to applicable tax withholding in accordance with the applicable award terms and conditions. Any PSUs that remain unvested as of the Separation Date (and are not to vest on August 30, 2021 and September 4, 2022, respectively) after giving effect to the acceleration contemplated by the preceding provisions of this Section 2(a).F shall terminate as of the Separation Date and Executive shall have no further right with respect thereto or in respect thereof.

G. Outplacement Services. Executive shall receive Tier I Executive Outplacement Services for a period of 12 months to be provided by a vendor approved by Western Digital, at Western Digital's sole discretion, for the use of Executive only ("Outplacement Services"). These services are not transferable or assignable to any other person. Executive is not entitled to the cash value of these services, which must be commenced within 30 days of the Separation Date. If tax withholding is required with respect to the Outplacement Services, Executive will make arrangements satisfactory to Western Digital to satisfy such withholding obligations.

Notwithstanding anything to the contrary herein or in any other plan, agreement or arrangement, Executive shall not be entitled to any further additional or continued vesting as to any stock option, stock unit, RSU or other equity or equity-based award on or following the Separation Date except as expressly provided in Sections 2(a).D-G above, and the Separation Date shall be deemed to be Executive's "Separation Date" (or any similar applicable defined term) for purposes of any outstanding stock option, stock unit, PSU, or other equity or equity-based award agreements.

(b) By signing this Agreement, Executive acknowledges and agrees that Executive shall not accrue or be entitled to any payments or benefits beyond the Separation Date except for the Separation Benefits listed in Section 2(a) of the Agreement. Executive acknowledges that the Separation Benefits are an additional benefit beyond that to which Executive is entitled to, and given in consideration for Executive's promises in this Agreement, and that such Separation Benefits are contingent upon Executive's execution of and not revoking this Agreement. The Separation Benefits are inclusive of any and all of Executive's incurred or alleged fees, expenses, and/or costs which relate in any way to Western Digital, including attorney's fees.

(c) The amount of the Severance Payment, COBRA Payment, and the Incentive Payment provided for in Section 2(a).A-C and (if required under applicable tax law) the amounts paid or provided as the Outplacement Services, will be reported on Executive's Form W-2 as income for Executive in the applicable year. In addition, amounts relating to the vesting or payment of stock units and PSUs, as well as amounts relating to the exercise of certain stock options, will be reported on Executive's Form W-2 as income in the applicable year.

3. General Release By Executive

A. Executive understands and agrees that, by signing this Agreement, in exchange for the Separation Benefits that Executive will receive under Section 2(a) above, Executive is waiving, releasing and discharging, and promising not to sue, Western Digital Corporation and each and all of its divisions, subsidiaries, parents, predecessors, successors, assigns, and affiliated or related corporations and entities, past and present, including but not limited to Western Digital Technologies, Inc., Western Digital (Fremont), LLC, WD Media, LLC, and HGST, Inc., as well as each and all of its and their owners, trustees, officers, directors, managers, shareholders, members, partners, administrators, fiduciaries, representatives, attorneys, assignees, successors, insurers, benefit plans, agents and employees, past and present, and each of them (collectively, "Released Parties"), from and with respect to any and all claims, wages, demands, actions, class actions, rights, liens, agreements, contracts, covenants, suits, causes of action, charges, grievances, obligations, debts, costs, expenses, penalties, attorneys' fees, damages, judgments, orders and liabilities of any kind, known or unknown, suspected or unsuspected, and whether or not concealed or hidden, arising out of or in any way connected with Executive's employment relationship with, or the termination of Executive's employment with, any of the Released Parties, including but in no way limited to, any act or omission committed or omitted prior to the date of execution of this Agreement. This general release of claims includes, but is in no way limited to, any and all wage and hour claims, claims for wrongful discharge, breach of contract, violation of public policy, tort, or violation of any statute, constitution or regulation, including but not limited to any claim under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), the Employee Retirement Income Security Act of 1974 ("ERISA"), the Americans with Disabilities Act of 1990, the Older Workers Benefits Protection Act ("OWBPA"), the Fair Labor Standards Act ("FLSA"), the federal Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") and Cal-COBRA, the Immigration and Nationality Act section 1324a, the federal Worker Adjustment and Retraining Notification Act ("WARN"), California WARN Labor Code sections 1400 *et seq*., the California Fair Employment and Housing Act ("FEHA"), the Family and Medical Leave Act of 1993 ("FMLA"), the California Family Rights Act ("CFRA"), the California Labor Code and Industrial Welfare Commission Wage Orders, or any other federal, state or local laws, regulations or ordinances, and any claim for severance pay, bonus, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit, or disability, and every type of relief (legal, equitable and otherwise) available to Executive, from the beginning of time to the date Executive signs this Agreement.

B. The foregoing release does not extend to Executive's right to receive (i) any vested rights or benefits under the terms of any "employee benefit plan," as defined in Section 3(3) of ERISA or any Western Digital nonqualified deferred compensation plan; (ii) Executive's vested rights, if any, under any stock option grant or stock award pursuant to the terms of such grant agreement or applicable equity award plan; (iii) indemnification under California Labor Code § 2802 California Corporations Code §317, Western Digital's by-laws, any indemnification agreement between Western Digital and Executive, or any other federal or state statute, law, regulation or provision that confers upon Executive a right to defense or indemnification arising out of the services he performed for Western Digital or any of the Releasees; or (iv) any other rights or claims under applicable federal, state or local law that cannot be waived or released by private agreement as a matter of law. Executive understands that nothing in the release shall preclude Executive from filing a claim for unemployment or workers compensation insurance. Executive further understands that nothing in this Release or Agreement, including the provisions addressing General Release by Executive, Litigation and Investigation Cooperation, and/or confidentiality obligations, is intended to or shall limit, prevent, impede or interfere with Executive's participation in government investigations, testifying in proceedings brought by a government agency regarding the Company's past or future conduct, or voluntarily communicating, without prior notice to or approval by the Company, with the government (including, but not limited to, government agencies such as the Securities and Exchange Commission, Equal Employment Opportunity Commission, and the National Labor Relations Board) about a potential violation of law or regulation. Notwithstanding the above, unless otherwise prohibited by law, by signing this Agreement, Executive expressly acknowledges and agrees to release and waive any right to claim or recover, and will not accept, any form of monetary or other damages or any other form of relief from Western Digital in connection with any charge, complaint, or lawsuit filed by Executive or by anyone else on Executive's behalf, for any released claims.

C. This general release applies to claims or rights that Executive may possess either individually or as a class member, and Executive waives and releases any right to participate in or receive money or benefits from any class action settlement or judgment after the date this Agreement is signed that relates in any way to Executive's employment with Western Digital.

D. This general release is binding on Executive's heirs, family members, dependents, beneficiaries, executors, administrators, successors and assigns.

E. The obligations stated in this general release are intended as full and complete satisfaction of any and all claims the Executive has now or has had in the past. By signing this general release, Executive specifically represents that Executive has made reasonable effort to become fully apprised of the nature and consequences of this general release, and that Executive understands that if any facts with respect to any matter covered by this release are found to be different from the facts Executive now believes to be true, Executive accepts and assumes that risk and agrees that this general release shall be effective notwithstanding such differences. Executive expressly agrees that this release shall extend and apply to all unknown, unsuspected and unanticipated injuries and damages.

F. Executive represents and warrants that neither Medicare nor Medicaid has made any payment for medical services or items pursuant to 42 U.S.C. § 1395y and the corresponding regulations, or otherwise, relating to the Released Matter. "Released Matter" means any released accident, occurrence, injury, illness, disease, loss, claim, demand, damages, or matter that is subject to this Agreement and the releases herein. Executive acknowledges and agrees that neither Western Digital nor any of the Released Parties has any obligation or responsibility to reimburse Medicare, Medicaid, the Centers for Medicare and Medicaid Services, or any other entity or person for any past or future injury related medical expenses that have arisen or may hereafter arise out or relate in any way to the Released Matters. Executive acknowledges and agrees that it is Executive's responsibility alone to reimburse such entities for any payments made on their behalf for such past or future medical expenses, if any, and Executive agrees to indemnify and hold harmless Western Digital and the Released Parties from any and all claims, demands, liens, subrogated interests and/or causes of action of any nature or character that have been or may in the future be asserted by Medicare and/or Medicaid and/or persons acting on behalf of Medicare and/or Medicaid concerning medical, hospital, or other expenses arising of the Released Matters, or concerning any claim based on inaccurate or inadequate information provided by Executive concerning Executive's status as a Medicare or Medicaid beneficiary.

G. Executive promises not to pursue any claim that Executive has settled by this release. If Executive breaks this promise, Executive agrees to pay all of Western Digital's costs and expenses (including reasonable attorneys' fees) related to the defense of any claims. Executive understands that nothing in this Agreement shall be deemed to preclude Executive from challenging the knowing and voluntary nature of this release before a court or the Equal Employment Opportunity Commission ("EEOC"), or from filing a charge with the EEOC, the National Labor Relations Board, or any other federal, state or local agency charged with the enforcement of any employment laws. Executive expressly acknowledges and agrees, however, that, by signing this release, Executive is waiving the right to, and will not accept, any form of monetary or other damages or any other form of relief from Western Digital based on claims asserted in such a charge or complaint.

4. 1542 Waiver. It is Executive's intention in signing this Agreement that the general release of claims should be effective as a bar to each and every claim, demand and cause of action stated above. In furtherance of this intention, Executive hereby expressly waives any and all rights and benefits conferred upon Executive by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE and expressly consents that this Agreement shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims, demands and causes of action, if any, as well as those relating to any other claims, demands and causes of action referred to above. SECTION 1542 provides:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND, THAT IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

Executive acknowledges and understands the significance and consequence of such release and such specific waiver of SECTION 1542

5. Acknowledgements. Executive acknowledges and agrees that Executive has not suffered any on-the-job injury for which Executive has not already filed a claim. Executive has not been retaliated against for reporting any allegations of wrongdoing by Western Digital or its officers, including any allegations of corporate fraud.

6. Waiver of Rights Under Age Discrimination in Employment Act of 1967. Executive expressly acknowledges and agrees that, by entering into this General Release, Employee is waiving and releasing any rights or claims that Executive may have arising under the Age Discrimination in Employment Act of 1967 ("ADEA"), as amended, which may have arisen on or before the date of execution of this General Release, and that this waiver and release is knowing and voluntary. Executive also expressly acknowledges and agrees that:

(a) In return for this waiver and release, Executive will receive consideration, i.e., something of value, beyond that to which Executive was already entitled before entering into this General Release;

(b) Executive is hereby advised in writing by this General Release to consult with an attorney before signing this General Release;

(c) When given a copy of this General Release, Executive was informed that Executive had twenty-one (21) days within which to consider it; and

(d) Executive was informed that Executive has seven (7) days following Executive's execution of this General Release in which to revoke its execution, in writing to Western Digital's Executive Vice President and Chief Legal Officer, and that this General Release will not become effective or enforceable until the revocation period has expired.

In the event Executive signs this General Release and returns it to Western Digital in less than the 21-day period identified above, Executive hereby acknowledges that Executive has freely and voluntarily chosen to waive the time period allotted for consideration of this General Release. This General Release will become effective and enforceable seven (7) days following execution by Employee, unless Executive revokes it during the seven-day period consistent with the terms of this Section. The parties agree that no change to this General Release, whether material or immaterial, will restart the running of the twenty-one (21) day period. In the event that Executive exercises Executive's right of revocation during the seven-day revocation period, neither Western Digital nor Executive will have any obligations under this General Release. Nothing in this Paragraph prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs from doing so, unless specifically authorized by federal law.

7. Denial of Liability. This Agreement does not constitute an admission by Western Digital of any violation of federal, state or local law, ordinance or regulation or of any liability or wrongdoing whatsoever. Neither this Agreement nor anything in this Agreement shall be construed to be or shall be admissible in any proceeding as evidence of liability or wrongdoing by Western Digital. This Agreement may be introduced, however, in any proceeding to enforce the Agreement.

8. Confidentiality. Executive agrees that the terms and conditions of this Agreement shall remain confidential as between the parties and, unless required by law, Executive shall not disclose them to any other person, other than to Executive's legal and financial advisors or members of Executive's immediate family, who shall also be advised of its confidentiality and who shall agree to be bound by this confidentiality agreement. Without limiting the generality of the foregoing, Executive specifically agrees not to disclose information regarding this Agreement to any current or former employee of Western Digital. Executive agrees that disclosure by Executive in violation of the foregoing shall constitute and be treated as a material breach of this Agreement.

9. Confidential and Proprietary Information. Executive acknowledges that by reason of Executive's position with Western Digital, Executive has been given access to confidential, trade secret, proprietary or private materials or information regarding Western Digital's business. Executive represents that Executive has held all

such information confidential and will continue to do so, and that Executive will not use such information without the prior written consent of Western Digital. Executive may continue to receive and be entrusted with confidential material through the Separation Date. In addition, Executive agrees that Executive's obligations under the Employee Invention and Confidentiality Agreement, if Executive is subject to one, or any other similar Western Digital or Released Party agreement or policy relating to confidential information, employee inventions, nonsolicitation, noncompetition, or similar matters to which Executive is now subject ("Surviving Agreements") continue in effect per the terms of those agreements. Executive represents that Executive has returned all confidential, proprietary and trade secret information within Executive's possession or control to Western Digital or will make best efforts to do so on or before the Separation Date. Executive understands that confidential trade secrets, proprietary information and confidential business information of Western Digital affects the successful conduct of Western Digital's business and its goodwill. Executive hereby acknowledges that the sale or unauthorized use or disclosure of any confidential, trade secret, proprietary or private materials or information regarding Western Digital's business by any means whatsoever shall constitute "Unfair Competition." Executive agrees that Executive shall not engage in Unfair Competition at any time. Executive also understands that pursuant to the Defend Trade Secrets Act of 2016, 18 USC § 1833(b), Executive shall not be held criminally or civilly liable under any Federal or State Trade secret law for the disclosure of a trade secret that is made (a) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law; or (b) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

10. Return of Company Property. Executive warrants and represents that Executive will return all company equipment, including, but not limited to, keys or means of access to Western Digital's facilities or parking structures, computers, cell phones, personal data assistants, and notebooks within Executive's possession or control, and not previously delivered to Western Digital, on or before Executive's Separation Date. Executive will also return all information, materials, documents, memoranda, reports, files, samples, books, correspondence, lists, programs, documentation, and/or other related materials produced as a result of Executive's employment with Western Digital (including copies) within Executive's possession or control, and not previously delivered to Western Digital, no later than Executive's Separation Date.

11. Non-Solicitation. Executive promises and agrees that she will not, during the twelve (12) months following the Separation Date, directly or indirectly (a) solicit or recruit any individual causing them to terminate employment with Western Digital in order to become an employee, consultant or independent contractor for Executive or any other person or entity; or (b) solicit for competitive business purposes any customer of Western Digital or its affiliates (who is or became a customer during the term of Executive's employment and whose information constitutes Western Digital's trade secret under applicable law). Executive acknowledges that the restrictions contained in this paragraph are reasonable to protect the stability of Western Digital's workforce and to protect the confidential, proprietary and trade secret information of Western Digital, and that Western Digital would suffer irreparable harm if Executive fails to comply with the promises in this paragraph.

12. Litigation and Investigation Cooperation. Executive agrees to cooperate with Western Digital regarding any threatened, pending or subsequently filed litigation, claims, or other disputes, or in any investigation or proceeding by any governmental agency or body, involving Western Digital that relate to matters within Executive's knowledge or responsibility during Executive's employment with Western Digital. Executive has disclosed to Western Digital's General Counsel all information within Executive's knowledge as of the date of this Agreement related to any pending or threated legal matter with which Executive has had any direct or indirect involvement. Furthermore, Executive agrees to cooperate in the prosecution of any claims and lawsuits brought by Western Digital that are currently outstanding or that may in the future be brought relating to matters which occurred during or prior to the term of Executive's employment with Western Digital. Without limiting the foregoing, Executive agrees (a) to meet with Western Digital representatives, its counsel, or other designees at mutually convenient times and places with respect to any items with the scope of this provision; (b) to provide truthful testimony regarding same to any court, agency, or other adjudicatory body; and (c) to provide Western Digital with notice of contact by any adverse party or such adverse party's representative, except as may be required by law. Western Digital will reimburse Executive for all reasonable expenses in connection with the assistance and cooperation described in this paragraph.

13. Intellectual Property Assistance. Executive agrees to execute every lawful document that Western Digital requests her to execute (whether or not during Executive's employment with Western Digital) in connection with the protection of Western Digital's intellectual property rights. Such lawful documents include, but are not limited to, declarations and assignments including declarations of inventorship for filing and prosecuting patent applications on inventions, assignments to show title to such inventions and patent applications in Western Digital or Western Digital's designee, and assignments to show title to works of authorship and applications for copyright registration. Executive agrees that Executive shall give such further assistance, including but not limited to information and testimony pursuant to Western Digital's request (whether or not after Executive's Separation Date) in connection with its defense, assertion, or protection of Western Digital's intellectual property rights. Western Digital shall reimburse Executive for all reasonable out of pocket expenses incurred in providing assistance pursuant to this provision.

14. Non-Disparagement. Executive agrees that Executive shall not (a) directly or indirectly, make or ratify any statement, public or private, oral or written, to any person that disparages, either professionally or personally, Western Digital, as well as its directors, officers, and employees, past and present, and each of them, in each such case in his or her capacity as a service provider to Western Digital, or (b) make any statement or engage in any conduct that has the purpose of materially disrupting the business of Western Digital. In the event Western Digital receives inquiries from potential employers regarding Executive, Western Digital will provide only Executive's dates of employment, position history, and compensation. Executive agrees that Executive will direct all reference inquiries to HR department (HR Central at 866-823-8775). Nothing herein shall in any way prohibit Executive or Western Digital from disclosing such information as may be required by law, or by judicial or administrative process or order or the rules of any securities exchange or similar self-regulatory organization applicable to Executive or Western Digital.

15. Repayment Provision Upon Re-employment. Executive agrees to repay Western Digital a pro rata portion of the Separation Benefits paid to Executive under Section 2 of this Agreement if Executive obtains re-employment with Western Digital, including any of its related entities, within the period of time after execution of the Agreement as set forth in Section 2 for which Western Digital contemplates paying Executive Separation Benefits. For example, if Executive is paid two weeks of Separation Benefits, but is reemployed by Western Digital one week after Executive's Separation Date, Executive must repay one week of Separation Benefits to Western Digital.

16. Warranty Regarding Non-Assignment. Executive warrants and represents that Executive has not heretofore assigned or transferred to any person not a party to this Agreement any released matter or any part or portion thereof and Executive shall defend, indemnify and hold harmless Western Digital from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

17. Termination of Relationship. Executive and Western Digital acknowledge that any employment or contractual relationship between them shall terminate on the Separation Date, and that they have no further employment or contractual relationship except as may arise out of this Agreement and Executive's continued obligations under the Surviving Agreements.

18. Warranty Regarding Taxes. Executive agrees that Executive shall be exclusively and fully liable for the payment of any and all federal, state, and local taxes which may be due, and tax consequences, including interest and penalties, if any, as the result of the consideration received as set forth herein. Executive agrees to indemnify Western Digital for, and to hold Western Digital harmless from, any obligation, liability, taxes, penalties, costs or attorney's fees (collectively, the "Tax Liability") it may incur in connection with the failure to withhold any tax, social security, FICA, or any other amounts associated with the above-referenced payment, except to the extent such Tax Liability directly results from Western Digital's gross negligence in connection with the failure to properly withhold or report any tax, social security, FICA or other amounts associated with the above-referenced payment. Executive has not relied upon any advice from Western Digital as to the taxability of any payments hereunder, whether pursuant to federal, state or local income tax statutes or otherwise. Executive acknowledges that Western Digital does not make and has not made any representations regarding the taxability of

the payment to Executive, and Executive has not relied upon any representation or advice by Western Digital on that subject. It is intended that the terms of this Agreement will not result in the imposition of any tax liability pursuant to Section 409A of the Internal Revenue Code of 1986, as amended. This Agreement shall be construed and interpreted consistent with that intent so as to avoid the imputation of any additional tax, penalty or interest under Section 409A of the Internal Revenue Code yet preserve (to the nearest extent possible) the intended benefit payable to the Executive.

19. Severability and Enforceability. If any provision of this Agreement or its application is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provision or application and, therefore, the provisions of this Agreement are declared to be severable. The parties agree that a waiver of a breach by the other party shall not operate or be construed as a waiver by that party of any subsequent breach of like or similar kind. No waiver shall be binding unless in writing and signed by the party waiving the breach.

20. Integration Clause. This Agreement, the Surviving Agreements, and the applicable equity award plans and award agreements governing outstanding equity awards (collectively, the "Integrated Agreements") constitute and contain the entire agreement and understanding concerning Executive's employment and the other matters addressed herein. The parties intend the Integrated Agreements to be a complete and exclusive statement of the terms of their agreement. The parties represent and acknowledge that they do not rely and have not relied upon any representation or statement not set forth in this Agreement. The Integrated Agreements supersede and replace all prior negotiations and agreements, proposed or otherwise, whether written or oral, between the parties concerning the subject matters contained herein. This is a fully integrated document. This Agreement may be modified only with a written instrument executed by both parties.

21. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic and facsimile copies of such signed counterparts may be used in lieu of the originals for any purpose.

22. Advice of Counsel. In entering this Agreement, the parties represent that they have had the opportunity to seek the advice of counsel of their choosing prior to executing this Agreement.

23. Attorney's Fees. The parties agree that each side shall bear their own costs and any attorney's fees incurred in connection with this Agreement, other than as may be set forth in Section 2 above. However, should Executive breach any of the provisions or obligations of this Agreement, all of which are deemed material for purposes of this Section 23, Western Digital shall be entitled to recover from Executive the reasonable attorney fees and costs that Western Digital incurs in connection with any legal dispute over Executive's breach of the Agreement.

24. Supplementary Documents. All parties agree to cooperate fully and to execute any and all supplementary documents and to take all additional actions that may be necessary or appropriate to give full force to the basic terms and intent of this Agreement and which are not inconsistent with its terms.

25. Cooperation in Drafting. Executive and Western Digital have cooperated in the drafting and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against any party on the basis that the party was the drafter.

26. Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

27. Arbitration and Governing Law. This Agreement is made and entered into in the State of California and shall in all respects be interpreted, enforced and governed under the laws of said State without regard to principles of conflict of laws.

A. Provided that Executive has exhausted the claims and appeals procedure of the Plan with respect to any claim for benefits or for breach of fiduciary duty, any dispute regarding Executive's employment with Western Digital or termination of such employment, and any aspect of this Agreement (including but not limited to the enforceability, unconscionability, interpretation, construction, or breach of this Agreement), shall be governed by the Western Digital Dispute Resolution Agreement, in the event an enforceable one exists between Executive and Western Digital.

B. In the event that an enforceable Western Digital Dispute Resolution Agreement between Executive and Western Digital does not exist, and provided that Executive has exhausted the claims and appeals procedure previously mentioned in this paragraph with respect to any claims for benefits or for breach of fiduciary duty, the following shall apply: Any dispute regarding Executive's employment with Western Digital or its termination, and any aspect of this Agreement (including but not limited to the enforceability, unconscionability, interpretation, construction, or breach of this Agreement, except as expressly provided otherwise herein) shall be settled by final and binding arbitration before a single arbitrator in the county in which Executive worked in accordance with the JAMS Employment Arbitration Rules and Procedures ("Rules") as the exclusive remedy for such dispute, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. A copy of the Rules can be found at: <u>http://www.jamsadr.com/rules-employment-arbitration</u>. The arbitration proceedings do not provide for jury trials, but for a hearing before one independent, neutral arbitrator. Therefore, in agreeing to arbitrate claims, both Executive and Western Digital and its affiliates are waiving a trial or hearing before a jury. Any claim shall be brought in the parties' individual capacity, and not as a plaintiff or class member in any purported or actual class or collective action proceeding, and accordingly Executive waives all purported and actual class and collective action claims, unless applicable law prohibits such waiver, which itself, notwithstanding the foregoing, shall be a question for a court of competent jurisdiction to resolve. In the event of (1) a California Private Attorney General Action claim; (2) a purported or actual class or collective action claim determined to be non-waivable pursuant to applicable law; or (3) any claim determined to be non-arbitrable pursuant to applicable law, such claim(s) shall be brought as a civil action and the parties shall seek such civil action to be stayed pending resolution of all arbitrable claims in arbitration.

C. This arbitration provision shall be viewed as a post-employment agreement, with both Executive and Western Digital splitting equally any fees of the arbitrator and JAMS.

28. <u>Injunctive Relief</u>. Either party may apply to the arbitrator for preliminary injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either party also may, without waiving any remedy under this paragraph, seek from any court having jurisdiction any interim or provisional relief that is necessary to protect the rights of that party, pending the establishment of the arbitral tribunal.

IN WITNESS WHEREOF, the undersigned have read and understand the consequences of this Agreement and voluntarily sign it. The undersigned declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

EXECUTED this 14th day of August, 2020

"EXECUTIVE"

Print Name: Mike Cordano

Signature: /s/Michael D. Cordano

EXECUTED this 14th day of August, 2020

"WESTERN DIGITAL"

Print Name: Lori Sundberg

Title: Chief Human Resources Officer, HR

Signature: /s/Lori Sundberg

Exhibit 31.1

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

David V. Goeckeler
Chief Executive Officer

Dated: November 6, 2020

Exhibit 31.2

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

I, Robert K. Eulau, 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/ Robert K. Eulau

Robert K. Eulau
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: November 6, 2020

Exhibit 32.1

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 October 2, 2020 (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

David V. Goeckeler
Chief Executive Officer

Dated: November 6, 2020

Exhibit 32.2

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 October 2, 2020 (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/ Robert K. Eulau

Robert K. Eulau
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: November 6, 2020