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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): January 22, 2014

Western Digital Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

001-08703
(Commission
File Number)

33-0956711
(I.R.S. Employer
Identification No.)

3355 Michelson Drive, Suite 100
Irvine, California
(Address of Principal Executive Offices)

92612
(Zip Code)

(949) 672-7000
(Registrant's Telephone Number, Including Area Code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 240.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On January 22, 2014, Western Digital Corporation (“Western Digital”) announced financial results for the second fiscal quarter ended December 27, 2013. A copy of the press release making this announcement is attached hereto as Exhibit 99.1 and is incorporated herein by reference. A copy of Western Digital’s Quarterly Fact Sheet for the second fiscal quarter ended December 27, 2013 is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

In accordance with General Instruction B.2 of Form 8-K, the information in this Item 2.02, including Exhibit 99.1 and Exhibit 99.2, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 99.1 Press Release issued by Western Digital Corporation on January 22, 2014 announcing financial results for the second fiscal quarter ended December 27, 2013.
- 99.2 Second Quarter Fiscal Year 2014 Western Digital Corporation Quarterly Fact Sheet.



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FOR IMMEDIATE RELEASE:**WESTERN DIGITAL ANNOUNCES Q2 REVENUE OF \$4.0 BILLION AND
NON-GAAP NET INCOME OF \$532 MILLION, OR \$2.19 PER SHARE¹**

IRVINE, Calif. — Jan. 22, 2014 — Western Digital® Corp. (NASDAQ: WDC) today reported revenue of \$4.0 billion and net income of \$430 million, or \$1.77 per share for its second fiscal quarter ended Dec. 27, 2013. On a non-GAAP basis, net income was \$532 million or \$2.19 per share.¹ In the year-ago quarter, the company reported revenue of \$3.8 billion, net income of \$335 million, or \$1.36 per share. Non-GAAP net income in the year-ago quarter was \$513 million, or \$2.09 per share.²

The company generated \$727 million in cash from operations during the December quarter, ending with total cash and cash equivalents of \$4.7 billion. During the quarter, the company utilized \$150 million to buy back 2.0 million shares of common stock. On Nov. 13, the company declared a \$0.30 per common-share dividend, which was paid on Jan. 15.

“We executed well in the December quarter as we continue participating in the ongoing growth of data in all of our served markets,” said Steve Milligan, president and chief executive officer. “The industry TAM was slightly higher than anticipated driven by seasonal demand as we saw strength in gaming and branded products.

“We continue to be very excited about our unique position in the storage ecosystem, enabling a broad-based perspective on the dramatic changes that are underway,” said Milligan. “We serve very large markets underpinned by strong data growth prospects. Strategically, we are well positioned to play a leadership role by innovating and collaborating with our customers to define the future digital data landscape.”

The investment community conference call to discuss these results will be broadcast live over the Internet today at 2 p.m. Pacific/5 p.m. Eastern. The live and archived conference call webcast can be accessed online at investor.wdc.com. The telephone replay number is 800-688-2171 in the U.S. or +1-402-998-0565 for international callers.

About Western Digital

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

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our participation in the growth, and our role in the future, of digital data and our position in the storage ecosystem. These forward-looking statements are based on management's current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, including the impact of continued uncertainty and volatility in global economic conditions; supply and demand conditions in the hard drive industry; uncertainties concerning the availability and cost of commodity materials and specialized product components; actions by competitors; unexpected advances in competing technologies; uncertainties related to the development and introduction of products based on new technologies and expansion into new data storage markets; business conditions and growth in the various hard drive markets; pricing trends and fluctuations in average selling prices; and other risks and uncertainties listed in the company's filings with the Securities and Exchange Commission (the "SEC"), including the company's Form 10-Q filed with the SEC on Oct. 29, 2013, and our registration statement on Form S-3 filed with the SEC on Oct. 30, 2013, to which your attention is directed. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof, and the company undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

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Western Digital, WD and the WD logo are registered trademarks in the U.S. and other countries. HGST trademarks are intended and authorized for use only in countries and jurisdictions in which HGST has obtained the rights to use, market and advertise the brand. Other marks may be mentioned herein that belong to other companies.

¹ Non-GAAP net income for the second quarter fiscal 2014 consists of GAAP net income of \$430 million plus \$51 million of amortization of intangibles related to the acquisitions of HGST, sTec, VeloBit and Virident, \$26 million related to employee termination benefits and other charges and \$25 million of charges related to litigation. Non-GAAP earnings per share of \$2.19 for the second quarter is calculated by using the same 243 million diluted shares as is used for GAAP earnings per share. The tax effect of the non-GAAP charges was not material.

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions; unaudited)

	Dec. 27, 2013	June 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,655	\$ 4,309
Accounts receivable, net	1,959	1,793
Inventories	1,293	1,188
Other current assets	381	308
Total current assets	<u>8,288</u>	<u>7,598</u>
Property, plant and equipment, net	3,509	3,700
Goodwill	2,555	1,954
Other intangible assets, net	607	605
Other non-current assets	323	179
Total assets	<u>\$15,282</u>	<u>\$14,036</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,106	\$ 1,990
Accrued arbitration award	732	706
Accrued expenses	479	480
Accrued compensation	456	453
Accrued warranty	117	114
Short-term debt	500	—
Current portion of long-term debt	230	230
Total current liabilities	<u>4,620</u>	<u>3,973</u>
Long-term debt	1,610	1,725
Other liabilities	473	445
Total liabilities	<u>6,703</u>	<u>6,143</u>
Total shareholders' equity	<u>8,579</u>	<u>7,893</u>
Total liabilities and shareholders' equity	<u>\$15,282</u>	<u>\$14,036</u>

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 27, 2013	Dec. 28, 2012	Dec. 27, 2013	Dec. 28, 2012
Revenue, net	\$ 3,972	\$ 3,824	\$7,776	\$7,859
Cost of revenue	2,831	2,765	5,547	5,607
Gross profit	1,141	1,059	2,229	2,252
Operating expenses:				
Research and development	421	378	822	774
Selling, general and administrative	229	162	361	341
Charges related to arbitration award	13	—	26	—
Employee termination benefits and other charges	—	41	—	67
Total operating expenses	663	581	1,209	1,182
Operating income	478	478	1,020	1,070
Net interest and other	(11)	(10)	(21)	(24)
Income before income taxes	467	468	999	1,046
Income tax provision	37	133	74	192
Net income	\$ 430	\$ 335	\$ 925	\$ 854
Income per common share:				
Basic	\$ 1.82	\$ 1.38	\$ 3.92	\$ 3.50
Diluted	\$ 1.77	\$ 1.36	\$ 3.81	\$ 3.43
Weighted average shares outstanding:				
Basic	236	242	236	244
Diluted	243	246	243	249

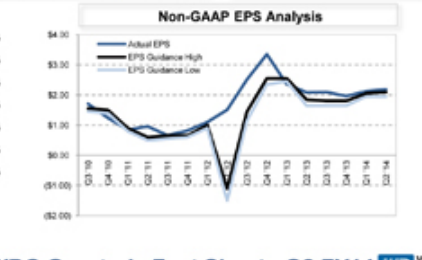
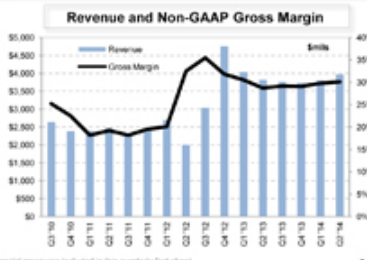
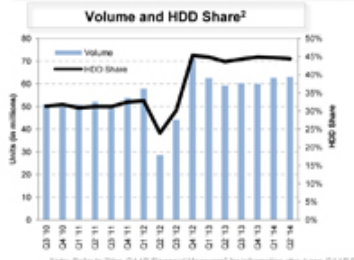
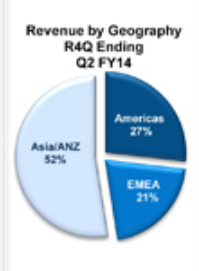
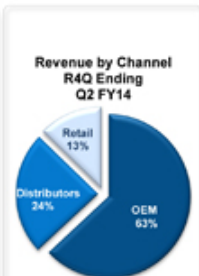
WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	Three Months Ended		Six Months Ended	
	Dec. 27, 2013	Dec. 28, 2012	Dec. 27, 2013	Dec. 28, 2012
Cash flows from operating activities				
Net income	\$ 430	\$ 335	\$ 925	\$ 854
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation and amortization	317	309	629	622
Stock-based compensation	42	32	84	71
Deferred income taxes	(29)	80	(39)	68
Loss on disposal of assets	14	—	29	—
Gain from insurance recovery	—	—	(65)	—
Non-cash portion of employee termination benefits and other charges	—	15	—	15
Changes in operating assets and liabilities, net	(47)	1	(157)	78
Net cash provided by operating activities	<u>727</u>	<u>772</u>	<u>1,406</u>	<u>1,708</u>
Cash flows from investing activities				
Purchases of property, plant and equipment	(170)	(246)	(306)	(628)
Acquisitions, net of cash acquired	(560)	(18)	(823)	(27)
Other investing activities, net	(35)	(15)	4	(15)
Net cash used in investing activities	<u>(765)</u>	<u>(279)</u>	<u>(1,125)</u>	<u>(670)</u>
Cash flows from financing activities				
Employee stock plans, net	91	53	98	113
Repurchases of common stock	(150)	(146)	(300)	(364)
Dividends to shareholders	(59)	(121)	(118)	(121)
Proceeds from debt	—	—	500	—
Repayment of debt	(58)	—	(115)	(58)
Net cash provided by (used in) financing activities	<u>(176)</u>	<u>(214)</u>	<u>65</u>	<u>(430)</u>
Net increase (decrease) in cash and cash equivalents	(214)	279	346	608
Cash and cash equivalents, beginning of period	4,869	3,537	4,309	3,208
Cash and cash equivalents, end of period	<u>\$ 4,655</u>	<u>\$ 3,816</u>	<u>\$ 4,655</u>	<u>\$ 3,816</u>

Amounts in millions, except per share amounts. ASP percentages		Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
TAM		163.3	156.2	164.0	167.5	158.5	165.8	175.3	119.1	148.4	156.7	139.1	135.8	135.9	133.3	146.2	142.2		
HDD Share		31.3%	31.8%	30.9%	31.2%	31.2%	32.8%	32.8%	23.9%	30.2%	45.3%	44.0%	43.8%	44.3%	44.8%	44.7%	44.4%		
Units (HDD) ²		51.1	49.7	50.7	52.2	48.8	53.8	57.8	28.5	44.2	71.0	62.5	59.2	50.2	58.9	62.0	63.1		
ASP (HDD)		\$51	\$47	\$46	\$47	\$45	\$44	\$46	\$50	\$58	\$55	\$62	\$62	\$61	\$60	\$58	\$60		
Revenue		\$2,641	\$2,382	\$2,396	\$2,475	\$2,252	\$2,403	\$2,694	\$1,995	\$3,035	\$4,754	\$4,035	\$3,824	\$3,704	\$3,728	\$3,804	\$3,972		
Gross Profit		\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$468	\$677	\$1,472	\$1,163	\$1,059	\$1,061	\$1,060	\$1,088	\$1,141		
Gross Margin		25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	23.5%	32.2%	31.0%	29.6%	27.7%	28.2%	28.2%	28.6%	28.7%		
R&D		\$180	\$154	\$167	\$189	\$179	\$188	\$193	\$191	\$285	\$406	\$396	\$378	\$396	\$402	\$401	\$421		
SG&A		64	61	59	66	63	77	71	85	122	178	179	182	185	180	132	229		
Other		-	27	-	-	10	32	18	210	48	80	26	41	63	689	13	13		
Total Operating Expenses		\$224	\$242	\$228	\$235	\$252	\$297	\$282	\$488	\$435	\$684	\$601	\$581	\$644	\$1,271	\$546	\$663		
Operating Income (Loss)		\$441	\$293	\$211	\$240	\$150	\$172	\$259	\$162	\$342	\$908	\$502	\$470	\$417	\$322	\$542	\$478		
Net Income (Loss)		\$400	\$265	\$197	\$225	\$146	\$158	\$239	\$145	\$483	\$745	\$510	\$335	\$391	\$308	\$495	\$430		
EPS		\$1.71	\$1.13	\$0.84	\$0.96	\$0.62	\$0.67	\$1.01	\$0.61	\$1.96	\$2.87	\$2.06	\$1.36	\$1.60	\$1.12	\$2.05	\$1.77		
Diluted Shares Outstanding		234	235	234	235	236	237	237	237	248	262	245	245	236	242	242	243		
Non-GAAP Results																			
Gross Profit		\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$468	\$677	\$1,472	\$1,163	\$1,059	\$1,061	\$1,060	\$1,135	\$1,196		
Gross Margin		25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	23.5%	32.2%	31.8%	29.6%	27.7%	28.2%	29.1%	29.8%	30.1%		
Net Income		\$400	\$265	\$197	\$225	\$156	\$163	\$260	\$158	\$472	\$694	\$513	\$514	\$477	\$514	\$514	\$532		
EPS ³		\$1.71	\$1.14	\$0.84	\$0.96	\$0.62	\$0.61	\$1.10	\$1.51	\$2.52	\$3.35	\$2.36	\$2.09	\$2.10	\$1.96	\$2.12	\$2.19		
Revenue By Channel																			
OEM		49%	54%	50%	45%	47%	55%	53%	59%	64%	69%	63%	61%	60%	66%	64%	62%		
Distributors		33%	29%	32%	33%	33%	29%	29%	25%	28%	21%	24%	24%	20%	23%	24%	24%		
Retail		18%	17%	18%	22%	20%	16%	18%	16%	8%	10%	13%	15%	14%	11%	12%	14%		
Revenue by Geography																			
Americas		24%	23%	23%	22%	22%	20%	19%	22%	21%	27%	22%	23%	27%	28%	26%	25%		
EMEA		24%	21%	23%	25%	24%	20%	22%	21%	18%	18%	18%	23%	22%	19%	20%	23%		
Asia/ANZ		52%	54%	54%	53%	54%	60%	59%	57%	61%	55%	59%	50%	51%	53%	54%	52%		
Top 10 Customers Revenue																			
Enterprise SSD Revenue		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$11	\$54	\$70	\$89	\$92	\$104	\$100	\$155		
PC Units⁴																			
Notebook		17,072	16,802	16,562	17,385	16,227	16,867	19,022	9,934	18,067	32,773	25,867	21,300	21,547	23,989	22,912	22,652		
Desktop		21,461	20,282	20,918	20,411	20,118	22,348	21,588	11,351	15,876	21,211	18,810	17,717	18,383	18,185	17,307	18,825		
Non-PC Units																			
Consumer Electronics ⁵		4,843	5,306	5,239	4,709	4,765	6,459	7,188	2,352	3,843	4,155	8,010	6,452	6,517	6,544	8,474	9,794		
Enterprise		2,356	2,386	2,319	2,284	2,318	2,463	2,399	1,724	3,015	7,913	5,588	6,633	7,211	7,897	7,771	7,783		
Total HDD		51,097	49,741	50,736	52,216	49,832	53,809	57,827	28,472	44,227	71,038	62,480	59,241	60,175	59,896	62,610	63,082		
Average GB Shipped		463	453	512	581	578	658	634	578	581	608	708	804	805	797	811	874		
EB Shipped		23.7	22.5	25.0	30.3	28.8	32.7	36.7	16.5	25.7	47.4	44.3	47.6	48.4	47.7	50.8	55.1		
RAQ GB Shipped		76.5	85.1	94.1	102.5	107.7	117.8	128.5	114.6	111.5	126.3	133.9	165.1	187.8	188.0	194.5	202.0		



Balance sheet, cash flow, earnings, dividends and share repurchase amounts in millions																
	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14
Cash and Cash Equivalents	\$2,626	\$2,734	\$2,858	\$3,110	\$3,230	\$3,490	\$3,675	\$3,924	\$3,377	\$3,200	\$3,557	\$3,816	\$4,050	\$4,309	\$4,869	\$4,655
Debt	425	490	375	350	325	294	292	231	2,742	2,185	2,126	2,128	2,013	1,955	2,398	2,340
Net Cash and Cash Equivalents	\$2,401	\$2,334	\$2,483	\$2,760	\$2,905	\$3,196	\$3,412	\$3,693	\$634	\$1,023	\$1,409	\$1,688	\$2,047	\$2,354	\$2,471	\$2,315
Cash Flow From Operations	\$588	\$363	\$300	\$505	\$313	\$447	\$352	\$378	\$1,208	\$1,138	\$836	\$772	\$737	\$684	\$680	\$737
Free Cash Flow	\$411	\$178	\$190	\$255	\$138	\$284	\$218	\$258	\$1,009	\$804	\$554	\$526	\$539	\$548	\$544	\$557
Capital Expenditures	\$177	\$185	\$200	\$250	\$175	\$153	\$134	\$120	\$158	\$324	\$282	\$246	\$188	\$136	\$136	\$170
Depreciation and Amortization	\$128	\$134	\$150	\$151	\$151	\$150	\$158	\$140	\$188	\$339	\$313	\$309	\$309	\$302	\$312	\$317
EBITDA	\$569	\$427	\$381	\$391	\$309	\$322	\$417	\$302	\$730	\$1,147	\$805	\$787	\$726	\$811	\$854	\$795
Inventory	\$1,267	\$1,256	\$1,325	\$1,250	\$1,171	\$1,206	\$1,356	\$747	\$2,377	\$2,364	\$1,861	\$1,732	\$1,700	\$1,793	\$1,791	\$1,959
Raw Materials	\$115	\$150	\$155	\$141	\$151	\$172	\$170	\$151	\$320	\$245	\$237	\$193	\$191	\$167	\$208	\$201
Work in Process	254	255	266	274	260	263	275	185	667	562	559	581	583	575	579	581
Finished Goods	138	146	145	153	163	142	230	95	286	413	558	430	423	446	457	511
Total Inventory	\$507	\$590	\$661	\$668	\$674	\$677	\$645	\$466	\$1,262	\$1,210	\$1,304	\$1,204	\$1,197	\$1,188	\$1,244	\$1,293
Property, Plant and Equipment, Net	\$1,756	\$2,159	\$2,245	\$2,277	\$2,249	\$2,224	\$2,209	\$2,081	\$4,171	\$4,067	\$4,027	\$3,938	\$3,833	\$3,700	\$3,538	\$3,559
Accounts Payable	\$1,508	\$1,507	\$1,703	\$1,628	\$1,486	\$1,545	\$1,706	\$883	\$2,774	\$2,773	\$2,545	\$2,185	\$2,037	\$1,990	\$2,061	\$2,109
Days Sales Outstanding	43	48	50	46	47	46	45	34	71	45	44	41	41	44	43	45
Days Inventory Outstanding	23	28	26	26	28	27	27	31	57	34	42	40	40	40	42	42
Days Payables Outstanding	69	74	75	74	73	73	72	60	123	77	82	72	69	67	69	68
Cash Conversion Cycle	(3)	2	(3)	(2)	2	-	1	5	5	2	4	9	12	17	16	19
Inventory Turns	16	13	14	14	13	13	13	12	6	11	9	9	9	9	9	9
Dividends Paid	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$121	\$-	\$-	\$59	\$59
Shares Repurchased	\$-	\$-	\$18	\$-	\$-	\$-	\$-	\$-	\$-	\$164	\$-	\$-	\$-	\$-	\$23	\$20
Shares Repurchased	\$-	\$-	\$50	\$-	\$-	\$-	\$-	\$-	\$-	\$604	\$218	\$148	\$243	\$235	\$150	\$150
Remaining Amount Authorized	\$466	\$466	\$416	\$416	\$416	\$416	\$416	\$416	\$1,312	\$1,312	\$2,504	\$2,448	\$2,205	\$1,570	\$1,820	\$1,670
R&Q Economic Profit ¹	\$786	\$826	\$714	\$484	\$213	\$92	\$113	\$15	\$93	\$542	\$801	\$976	\$884	\$599	\$1,780	\$1,009
R&Q ROIC ²	31.2%	30.2%	26.4%	21.1%	15.6%	13.2%	13.6%	11.5%	14.6%	20.4%	21.3%	21.0%	20.0%	10.1%	9.7%	10.5%
R&Q ROCA ³	21.2%	20.7%	18.1%	14.6%	10.9%	9.2%	9.5%	8.5%	10.5%	14.3%	14.6%	14.7%	14.2%	7.0%	6.7%	7.2%
Worldwide Headcount ⁴	61,803	62,500	62,817	62,991	61,349	65,431	67,799	67,121	106,604	103,111	96,002	93,820	87,595	85,777	87,586	87,976

Business Model

(Non-GAAP)

Gross Margin*
27%-32%

Operating Expense*
10%-12%

Operating Income*
15%-22%

Tax
7%-10% of Income Before Tax

Capital Expenditures*
5%-7%

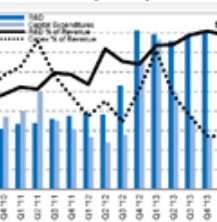
Conversion Cycle
4-8 Days

*Percent of Revenue

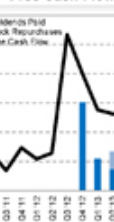
Gross vs. Net Cash & Cash Equivalents



R&D and Capital Expenditures



Free Cash Flow



R&Q ROIC & R&Q Economic Profit¹



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

Non-GAAP Financial Measures

Free Cash Flow: Free cash flow is a non-GAAP financial measure defined as cash flows from operations less capital expenditures. We consider free cash flow to be useful as an indicator of our overall liquidity, as the amount of free cash flow generated in any period is representative of cash that is available for strategic opportunities including, among others, investing in the Company's business, making strategic acquisitions, strengthening the balance sheet, repaying debt, paying dividends and repurchasing stock. We also believe that free cash flow is one of several benchmarks used by investors for comparison of our liquidity with other companies in our industry, although our measure of free cash flow may not be directly comparable to similar measures reported by other companies. Free cash flow should not be construed as an alternative to cash flows from operations or other cash flow measurements determined in accordance with GAAP.

EBITDA: EBITDA is a non-GAAP financial measure defined as net income before interest, income tax expense, depreciation and amortization. We include information concerning EBITDA because we believe it is a useful measure to evaluate our operating performance. As a measure of our operating performance, we believe EBITDA provides a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. While EBITDA is a relevant and widely used measure of operating performance, it does not represent net income as defined by GAAP and it should not be considered as an alternative to that measure in evaluating operating performance.

Non-GAAP Gross Margin and Non-GAAP Gross Profit: Non-GAAP gross margin is a non-GAAP measure defined as non-GAAP gross profit divided by revenue. Non-GAAP gross profit is a non-GAAP measure defined as gross profit before any charges to cost of goods sold that are unusual, non-recurring, or may not be indicative of ongoing operations. Because we believe some charges may not be indicative of ongoing operations, we believe that non-GAAP gross profit is a useful measure to investors as an alternative method for measuring our operating performance and comparing it against prior periods' performance.

Non-GAAP Net Income and Non-GAAP EPS: Non-GAAP net income and non-GAAP EPS are non-GAAP measures defined as net income and EPS, respectively, before any charges that are unusual, non-recurring, or may not be indicative of ongoing operations, or any tax impact related to those charges.

In millions, except gross margin and per share amounts	Q3 FY10	Q4 FY10	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14
Reconciliation of Cash Flows from Operations to Free Cash Flow																
Cash Flows from Operations	\$588	\$363	\$390	\$505	\$313	\$447	\$352	\$378	\$1,208	\$1,128	\$938	\$722	\$727	\$684	\$680	\$727
Capital Expenditures	(177)	(185)	(200)	(250)	(175)	(153)	(134)	(120)	(139)	(224)	(282)	(246)	(188)	(135)	(138)	(170)
Free Cash Flow	\$411	\$178	\$190	\$255	\$138	\$294	\$218	\$258	\$1,069	\$904	\$656	\$476	\$539	\$549	\$544	\$557
Reconciliation of Net Income to EBITDA																
Net Income (Loss)	\$400	\$265	\$197	\$225	\$146	\$168	\$239	\$145	\$483	\$745	\$519	\$335	\$391	\$265	\$495	\$430
Interest	1	1	-	1	(1)	2	1	2	4	7	14	10	11	0	10	11
Income Tax Expense	40	27	14	14	13	12	19	15	55	50	59	133	15	35	37	37
Depreciation and Amortization	128	134	150	151	151	150	158	140	188	339	313	309	309	302	312	317
EBITDA	\$669	\$427	\$361	\$391	\$309	\$322	\$417	\$302	\$730	\$1,147	\$905	\$787	\$720	\$61	\$854	\$795
Reconciliation of Gross Margin to Non-GAAP Gross Margin & Gross Profit to Non-GAAP Gross Profit																
Gross Profit	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$977	\$1,472	\$1,193	\$1,059	\$1,061	\$1,050	\$1,088	\$1,141
Acquisition-Related Fair Value Adjustments	-	-	-	-	-	-	-	-	91	-	-	-	-	-	-	-
Restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	15
Amortization of Intangibles	-	-	-	-	-	-	-	-	2	39	38	38	38	35	35	40
Non-GAAP Gross Profit	\$665	\$535	\$437	\$475	\$410	\$469	\$541	\$648	\$1,077	\$1,511	\$1,231	\$1,097	\$1,099	\$1,085	\$1,135	\$1,196
Revenue	\$2,641	\$2,382	\$2,396	\$2,475	\$2,252	\$2,403	\$2,694	\$1,995	\$3,035	\$4,754	\$4,035	\$3,824	\$3,704	\$3,720	\$3,804	\$3,972
Gross Margin	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	32.2%	31.0%	29.8%	27.7%	28.2%	28.2%	28.8%	28.7%
Non-GAAP Gross Margin	25.2%	22.5%	18.2%	19.2%	18.2%	19.5%	20.1%	32.5%	35.5%	31.8%	30.5%	28.7%	29.2%	29.1%	29.8%	30.1%
Reconciliation of Net Income (Loss) to Non-GAAP Net Income																
Net Income (Loss)	\$400	\$260	\$197	\$225	\$146	\$168	\$239	\$145	\$483	\$745	\$519	\$335	\$391	\$265	\$495	\$430
Acquisition-Related Expense	-	-	-	-	10	10	14	14	34	-	-	-	-	7	13	-
Litigation	-	27	-	-	-	25	7	-	-	-	-	-	-	681	13	25
Charges Related to Flooding, Net	-	-	-	-	-	-	-	199	85	-	-	-	-	-	-	-
Acquisition-Related Fair Value Adjustments	-	-	-	-	-	-	-	-	91	-	-	-	-	-	-	-
Amortization of Intangibles	-	-	-	-	-	-	-	-	12	51	49	49	49	46	47	51
Restructuring and other	-	-	-	-	-	-	-	-	80	26	41	74	8	8	11	28
Insurance Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(85)	-
Tax Impact	-	-	-	-	-	-	-	-	(55)	(45)	-	88	-	-	-	-
Non-GAAP Net Income	\$400	\$292	\$197	\$225	\$156	\$169	\$260	\$358	\$919	\$872	\$994	\$913	\$914	\$477	\$514	\$532
EPS	\$1.71	\$1.13	\$0.84	\$0.96	\$0.62	\$0.67	\$1.01	\$0.61	\$1.06	\$2.87	\$2.06	\$1.36	\$1.60	\$(1.12)	\$2.05	\$1.77
Non-GAAP EPS	\$1.71	\$1.24	\$0.84	\$0.96	\$0.66	\$0.61	\$1.10	\$1.51	\$2.52	\$3.35	\$2.36	\$2.09	\$2.10	\$1.96	\$2.12	\$2.19
Diluted Shares Outstanding	234	235	234	235	236	237	237	237	246	260	252	248	245	236	242	243
Non-GAAP Diluted Shares Outstanding	234	235	234	235	236	237	237	237	246	260	252	248	245	243	242	243

Non-GAAP Financial Measures

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

	Q4		Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		Q1		Q2	
	in millions																					
	FY09	FY10	FY10	FY10	FY10	FY11	FY11	FY11	FY11	FY11	FY12	FY12	FY12	FY12	FY12	FY13	FY13	FY13	FY13	FY14	FY14	FY14
Reconciliation of Operating Income (Less) to R4Q Economic Profit																						
Operating Income (Loss)	\$209	\$319	\$473	\$441	\$293	\$211	\$240	\$158	\$172	\$299	\$162	\$542	\$808	\$652	\$478	\$417	\$221	\$542	\$478			
Income Tax Provision	(11)	(29)	(62)	(45)	(27)	(14)	(15)	(11)	(13)	(19)	(19)	(25)	(29)	(59)	(39)	(15)	(39)	(37)	(37)			
Net Operating Profit After Taxes	198	290	431	421	266	197	225	145	159	280	143	517	779	593	438	402	(258)	505	441			
R4Q Net Operating Profit After Taxes			972	1,320	1,388	1,295	1,090	854	728	771	692	1,034	1,628	1,919	2,117	2,032	1,024	996	1,062			
Invested Capital x WACC			(488)	(534)	(562)	(681)	(609)	(621)	(638)	(658)	(677)	(1,117)	(1,084)	(1,118)	(1,141)	(1,148)	(1,083)	(1,172)	(1,201)			
R4Q Economic Profit			\$484	\$786	\$826	\$714	\$484	\$233	\$90	\$113	\$15	\$917	\$1,744	\$1,801	\$1,976	\$1,884	\$941	\$824	\$861			

Formulas

Share = Units (HDD) / TAM

ASP = Revenue / Units (HDD)

Free Cash Flow = Cash Flow from Operations – Capital Expenditures

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

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

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

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

Cash Conversion Cycle = DSO + DIO – DPO

Inventory Turns = 364 days / DIO

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

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

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

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

Footnotes

1. ASP, Revenue by Channel and Revenue by Geography exclude external sales of media/substrates.
2. Unit volume excludes WD TV Media Players without hard drives, WD LiveWire, SSD and media.
3. Worldwide Headcount excludes temporary and contracted employees.
4. Consumer Electronics includes gaming.
5. PC includes shipments to distributors, second/third tier external HDD manufacturers, and white box manufacturers.
6. Q4 FY13 non-GAAP EPS is calculated using the same number of shares used for Q4 FY13 GAAP EPS plus 7 million dilutive shares. Dilutive shares are not included in the Q4 FY13 GAAP EPS calculation as Q4 FY13 resulted in a net loss.
7. WACC of 11% is an internal assumption.
8. Q2 FY12 includes charges related to the flooding. Q4 FY13 includes charges related to the arbitration award.
9. TAM is preliminary and based on internal information.