

WESTERN DIGITAL CORP

Form 10-Q

February 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 29, 2017

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 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

95119

San Jose, California

(Address of principal executive offices) (Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Smaller reporting company ☐ Emerging growth company ☐

(Do not check if a smaller
reporting 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. ☐

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

As of the close of business on January 30, 2018, 297,560,299 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, and our website is www.wdc.com. The information on our website is not incorporated in this Quarterly Report on Form 10-Q.

Western Digital, WD, SanDisk, Tegile, and Upthere 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.

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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 concerning the integration of, and anticipated benefits from, our acquisition of SanDisk Corporation;
- expectations regarding the integration of our HGST and WD subsidiaries following the decision by the Ministry of Commerce of the People’s Republic of China in October 2015;
- expectations regarding our Flash Ventures joint venture with Toshiba Memory Corporation;
- our quarterly cash dividend policy;
- expectations regarding our product development and technology plans;
- expectations regarding the outcome of legal proceedings in which we are involved;
- expectations regarding the impact of the Tax Cuts and Jobs Act enacted on December 22, 2017 on the Company;
- expectations regarding the repatriation of funds from our foreign operations;
- 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;
- expectations regarding the outcome and anticipated benefits of the announced Refinancing Transactions (as defined below); and
- our beliefs regarding the sufficiency of our available liquidity to meet our working capital, debt, dividend and capital expenditure needs.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in Part II, Item 1A of this Quarterly Report on Form 10-Q, and any of those made in our other reports filed with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We do not intend, and undertake no obligation, to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

	December 29, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,272	\$6,354
Short-term investments	23	24
Accounts receivable, net	2,052	1,948
Inventories	2,281	2,341
Other current assets	485	389
Total current assets	11,113	11,056
Property, plant and equipment, net	3,054	3,033
Notes receivable and investments in Flash Ventures	1,845	1,340
Goodwill	10,076	10,014
Other intangible assets, net	3,230	3,823
Other non-current assets	522	594
Total assets	\$ 29,840	\$29,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,921	\$2,144
Accounts payable to related parties	250	206
Accrued expenses	1,191	1,069
Accrued compensation	523	506
Accrued warranty	194	186
Current portion of long-term debt	274	233
Total current liabilities	4,353	4,344
Long-term debt	11,777	12,918
Other liabilities	2,438	1,180
Total liabilities	18,568	18,442
Commitments and contingencies (Notes 6, 8, 10 and 13)		
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 — 297 shares and 294 shares, respectively	3	3
Additional paid-in capital	4,410	4,506
Accumulated other comprehensive loss	(46)	(58)
Retained earnings	8,250	8,633
Treasury stock — common shares at cost; 15 shares and 18 shares, respectively	(1,345)	(1,666)
Total shareholders' equity	11,272	11,418
Total liabilities and shareholders' equity	\$ 29,840	\$29,860

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

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WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three Months Ended December 31, 2017		Six Months Ended December 31, 2017	
	2017	2016	2017	2016
Revenue, net	\$5,336	\$ 4,888	\$10,517	\$ 9,602
Cost of revenue	3,323	3,355	6,591	6,734
Gross profit	2,013	1,533	3,926	2,868
Operating expenses:				
Research and development	629	585	1,221	1,224
Selling, general and administrative	381	358	745	754
Employee termination, asset impairment, and other charges	48	45	100	113
Total operating expenses	1,058	988	2,066	2,091
Operating income	955	545	1,860	777
Interest and other income (expense):				
Interest income	14	5	30	10
Interest expense	(197)	(205)	(402)	(441)
Other income (expense), net	2	(24)	(4)	(296)
Total interest and other expense, net	(181)	(224)	(376)	(727)
Income before taxes	774	321	1,484	50
Income tax expense	1,597	86	1,626	181
Net income (loss)	\$(823)	\$ 235	\$(142)	\$ (131)
Income (loss) per common share				
Basic	\$(2.78)	\$ 0.82	\$(0.48)	\$ (0.46)
Diluted	\$(2.78)	\$ 0.80	\$(0.48)	\$ (0.46)
Weighted average shares outstanding:				
Basic	296	286	295	285
Diluted	296	294	295	285
Cash dividends declared per share	\$0.50	\$ 0.50	\$1.00	\$ 1.00

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

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WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net income (loss)	\$(823)	\$ 235	\$(142)	\$ (131)
Other comprehensive income (loss), before tax:				
Actuarial pension gain	—	1	—	6
Foreign currency translation adjustment	6	(186)	2	(169)
Net unrealized gain (loss) on derivative contracts	10	(136)	14	(140)
Net unrealized loss on available-for-sale securities	—	—	(1)	—
Total other comprehensive income (loss), before tax	16	(321)	15	(303)
Income tax benefit (expense) related to items of other comprehensive income (loss), before tax	(3)	9	(3)	3
Other comprehensive income (loss), net of tax	13	(312)	12	(300)
Total comprehensive loss	\$(810)	\$ (77)	\$(130)	\$ (431)

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

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

	Six Months Ended	
	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net loss	\$(142)	\$ (131)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	1,068	1,022
Stock-based compensation	196	201
Deferred income taxes	(129)	117
Loss on disposal of assets	12	10
Write-off of issuance costs and amortization of debt discounts	23	258
Loss on convertible debt and related instruments	—	5
Non-cash portion of employee termination, asset impairment and other charges	—	13
Other non-cash operating activities, net	16	42
Changes in:		
Accounts receivable, net	(99)	(540)
Inventories	65	52
Accounts payable	(276)	180
Accounts payable to related parties	44	6
Accrued expenses	95	59
Accrued compensation	17	194
Other assets and liabilities, net	1,425	12
Net cash provided by operations	2,315	1,500
Cash flows from investing activities		
Purchases of property, plant and equipment	(416)	(330)
Proceeds from the sale of property, plant and equipment	10	1
Acquisitions, net of cash acquired	(99)	—
Purchases of investments	(57)	(239)
Proceeds from sale of investments	29	55
Proceeds from maturities of investments	16	279
Investments in Flash Ventures	—	(20)
Notes receivable issuances to Flash Ventures	(621)	(309)
Notes receivable proceeds from Flash Ventures	112	259
Strategic investments and other, net	19	(12)
Net cash used in investing activities	(1,007)	(316)
Cash flows from financing activities		
Issuance of stock under employee stock plans	99	90
Taxes paid on vested stock awards under employee stock plans	(67)	(40)
Excess tax benefits from employee stock plans	—	56
Proceeds from acquired call option	—	61
Dividends paid to shareholders	(295)	(284)
Settlement of debt hedge contracts	28	—
Repayment of debt	(4,114)	(8,254)
Proceeds from debt	2,963	3,992
Debt issuance costs	(5)	(7)

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Net cash used in financing activities	(1,391)	(4,386)
Effect of exchange rate changes on cash	1	(9)
Net decrease in cash and cash equivalents	(82)	(3,211)
Cash and cash equivalents, beginning of year	6,354	8,151
Cash and cash equivalents, end of period	\$6,272	\$ 4,940
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$140	\$ 43
Cash paid for interest	\$308	\$ 299
Supplemental disclosure of non-cash investing and financing activities:		
Accrual of cash dividend declared	\$149	\$ 144

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

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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 industry. The Company’s broad portfolio of technology and products address the following key markets: Client Devices; Data Center Devices and Solutions; and Client Solutions. The Company also generates license and royalty revenue related to its intellectual property (“IP”), which is included in each of these three categories.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10 K for the fiscal year ended June 30, 2017. 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 June 30, 2017. 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. Fiscal years 2018, which ends on June 29, 2018, and 2017, which ended on June 30, 2017, are both comprised of 52 weeks, with all quarters presented consisting of 13 weeks.

Use of Estimates

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

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Note 2. Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, “Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides amendments that address eight specific cash flow classification issues for which there exists diversity in practice: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The Company adopted ASU 2016-15 in the second quarter of 2018 on a modified retrospective basis as required by the standard. The Company’s adoption of ASU 2016-15 did not have a material effect on the Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions and states that, among other things, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement and an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. This adoption resulted in a one-time net increase to beginning retained earnings of \$70 million, consisting of a \$58 million cumulative adjustment for the previously unrecognized windfall tax benefits related to previous vesting and exercises of stock-based awards, and a \$19 million cumulative adjustment related to the change in accounting policy for estimated forfeitures and share cancellations, partially offset by a decrease of \$7 million for the related tax impacts of change in forfeiture policy. In addition, under the new standard, the Company will prospectively reflect the tax deficiencies and benefits as an operating activity, rather than as a financing activity under the previous standard, in the Company’s Consolidated Statements of Cash Flows. For the three and six months ended December 29, 2017, the Company recognized excess tax benefits of \$5 million and \$27 million, respectively, as a component of its income tax expense.

In March 2016, the FASB issued ASU No. 2016-07, “Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting” (“ASU 2016-07”). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The Company adopted this standard in the second quarter of 2018. The Company’s adoption of ASU 2016-07 did not have a material impact on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015 11, “Inventory (Topic 330) - Simplifying the Measurement of Inventory” (“ASU 2015 11”), which dictates that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this standard in the first quarter of 2018. The Company’s adoption of ASU 2015 11 did not have a material impact on its Consolidated Financial Statements.

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 3. Supplemental Financial Statement Data

Inventories

December 30,
2017 2017
(in millions)

Inventories:

Raw materials and component parts	\$634	\$ 646
Work-in-process	667	632
Finished goods	980	1,063
Total inventories	\$2,281	\$ 2,341

Property, plant and equipment, net

December 30,
2017 2017
(in millions)

Property, plant, and equipment:

Land and buildings	\$1,913	\$1,855
Machinery and equipment	7,011	6,815
Computer equipment and software	433	404
Furniture and fixtures	50	49
Leasehold improvements	253	259
Construction-in-process	175	144
Property, plant and equipment, gross	9,835	9,526
Accumulated depreciation	(6,781)	(6,493)
Property, plant, and equipment, net	\$3,054	\$3,033

Goodwill

Carrying
Amount
(in
millions)

Balance at June 30, 2017	\$ 10,014
Goodwill recorded in connection with acquisitions	61
Foreign currency translation adjustment	1
Balance at December 29, 2017	\$ 10,076

On September 15, 2017, the Company acquired substantially all the assets of Tegile Systems, Inc., a provider of flash and persistent-memory storage solutions for enterprise data center applications. On August 25, 2017, the Company acquired substantially all the assets of Upthere, Inc., a cloud services company. These acquisitions are primarily intended to help meet the evolving needs of customers, while driving long-term growth for the Company's existing data center and client solution products over the long term.

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The aggregate purchase price of acquisitions during the six months ended December 29, 2017 was \$99 million in cash, with net assets acquired primarily consisting of developed technology and other intangibles assets, of which \$61 million was allocated to goodwill. Goodwill is primarily attributable to the benefits the Company expects to derive from diversifying product offerings to its Data Center Devices and Solutions and Client Solutions end markets as well as the acquired workforce. Goodwill is expected to be deductible for tax purposes because the acquisitions were structured as asset acquisitions but accounted for as business combinations. Concurrent with these acquisitions, the Company received \$36 million in proceeds on previously outstanding notes receivable due from these acquired entities.

During the six months ended December 29, 2017, the Company incurred \$6 million of transaction expenses related to these acquisitions, which are primarily included within Selling, General and Administrative expenses in the Condensed Consolidated Statements of Operations. Revenues and earnings related to these acquisitions was not material.

Intangible assets

	December 30, 2017 2017 (in millions)	
Finite-lived intangible assets	\$5,814	\$5,160
In-process research and development	80	696
Accumulated amortization	(2,664)	(2,033)
Intangible assets, net	\$3,230	\$3,823

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. During the three months ended December 29, 2017, two IPR&D projects reached technological feasibility totaling \$616 million and commenced amortization over an estimated useful life of 4 years.

Product warranty liability

Changes in the warranty accrual were as follows:

	Three Months Ended December 29, 2017 2016 (in millions)		Six Months Ended December 29, 2017 2016 (in millions)	
Warranty accrual, beginning of period	\$302	\$ 277	\$311	\$ 279
Charges to operations	46	44	90	91
Utilization	(43)	(35)	(81)	(80)
Changes in estimate related to pre-existing warranties	(1)	27	(16)	23
Warranty accrual, end of period	\$304	\$ 313	\$304	\$ 313

The long-term portion of the warranty accrual classified in Other liabilities was \$110 million and \$125 million as of December 29, 2017 and June 30, 2017, respectively.

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Other liabilities

	December 30, 2017	June 30, 2017
	(in millions)	
Non-current income taxes payable	\$1,425	\$—
Other non-current liabilities	1,013	1,180
Total other non-current liabilities	\$2,438	\$1,180

Accumulated other comprehensive income (loss)

Other comprehensive loss (“OCI”), 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 Accumulated other comprehensive income (loss) (“AOCI”):

	Actuarial Pension Gains (Losses)	Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Available for Sale Securities	Unrealized Gains (Losses) on Derivative Contracts	Total Accumulated Comprehensive Income (Loss)
	(in millions)				
Balance at June 30, 2017	\$(18)	\$ (39)	\$ 2	\$ (3)	\$ (58)
Other comprehensive income (loss) before reclassifications	—	2	(1)	15	16
Amounts reclassified from accumulated other comprehensive income	—	—	—	(1)	(1)
Income tax expense related to items of other comprehensive income	—	—	—	(3)	(3)
Net current-period other comprehensive income	—	2	(1)	11	12
Balance at December 29, 2017	\$(18)	\$ (37)	\$ 1	\$ 8	\$ (46)

During the three and six months ended December 29, 2017, there were no material reclassifications out of AOCI. The following table illustrates the significant amounts of each component reclassified out of AOCI to the Condensed Consolidated Statements of Operations:

AOCI Component	Three Months Ended December 30, 2017		Six Months Ended December 30, 2017		Statement of Operations Line Item
	(in millions)				
Unrealized holding gain (loss) on designated hedging activities:					
Foreign exchange contracts	\$4	\$ 16	\$ 1	\$ 40	Cost of revenue
Foreign exchange contracts	—	—	—	2	Research and development
Unrealized holding gain on designated hedging activities	4	16	1	42	
Total reclassifications for the period	\$4	\$ 16	\$ 1	\$ 42	

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 4. Fair Value Measurements and Investments

The Company's total cash, cash equivalents and marketable securities was as follows:

	December 31, 2017	June 30, 2017
	(in millions)	
Cash and cash equivalents	\$6,272	\$6,354
Short-term marketable securities	23	24
Long-term marketable securities (included within other non-current assets)	94	94
Total cash, cash equivalents and marketable securities	\$6,389	\$6,472

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.

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WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 December 29, 2017 and June 30, 2017, and indicate the fair value hierarchy of the valuation techniques utilized to determine such values:

	December 29, 2017			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash equivalents:				
Money market funds	\$3,016	\$—	\$—	—\$3,016
Certificates of deposit	—	7	—	7
Total cash equivalents	3,016	7	—	3,023
Short-term investments:				
Corporate notes and bonds	—	15	—	15
Asset-backed securities	—	4	—	4
Municipal notes and bonds	—	1	—	1
Equity securities	3	—	—	3
Total short-term investments	3	20	—	23
Long-term investments:				
U.S. Treasury securities	5	—	—	5
U.S. Government agency securities	—	5	—	5
International government securities	—	1	—	1
Corporate notes and bonds	—	66	—	66
Asset-backed securities	—	6	—	6
Municipal notes and bonds	—	11	—	11
Total long-term investments	5	89	—	94
Foreign exchange contracts	—	11	—	11
Interest rate swap contract	—	8	—	8
Total assets at fair value	\$3,024	\$135	\$—	—\$3,159
Liabilities:				
Foreign exchange contracts	\$—	\$7	\$—	—\$7
Total liabilities at fair value	\$—	\$7	\$—	—\$7

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WESTERN DIGITAL CORPORATION