

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 1994.

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
(State or other jurisdiction of
incorporation or organization)

95-2647125
(I.R.S. Employer
Identification No.)

8105 Irvine Center Drive
Irvine, California

92718

(Address of principal executive offices)

(Zip Code)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE (714) 932-5000

N/A

Former name, former address and former fiscal year if changed since last report.

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 X No

Number of shares outstanding of Common Stock, as of February 1, 1995 is 47,051,578.

WESTERN DIGITAL CORPORATION
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PART I. FINANCIAL INFORMATION
 ITEM 1. Financial Statements

WESTERN DIGITAL CORPORATION
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | THREE-MONTH PERIOD ENDED | |
|---|--------------------------|----------------------|
| | DECEMBER 31, 1994 | DECEMBER 25, 1993 |
| Revenues, net | \$551,944 | \$371,072 |
| Costs and expenses: | | |
| Cost of revenues | 442,904 | 298,251 |
| Research and development | 30,889 | 30,073 |
| Selling, general and administrative | 30,821 | 26,406 |
| Total costs and expenses | 504,614 | 354,730 |
| Operating income | 47,330 | 16,342 |
| Interest and other income (expense), net | 2,733 | (2,551) |
| Income before income taxes | 50,063 | 13,791 |
| Provision for income taxes | 7,509 | 1,304 |
| Net income | \$ 42,554 | \$ 12,487 |
| Earnings per common and common equivalent share (Note 2): | | |
| Primary | \$.89 | \$.32 |
| Fully diluted | \$.85 | \$.32 |
| Common and common equivalent shares used in computing per share amounts: | | |
| Primary | 47,683 | 38,673 |
| Fully diluted | 51,562 | 39,117 |

The accompanying notes are an integral part of these financial statements.

WESTERN DIGITAL CORPORATION
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | SIX MONTH PERIOD ENDED | |
|---|------------------------|----------------------|
| | DECEMBER 31, 1994 | DECEMBER 25, 1993 |
| Revenues, net | \$1,016,534 | \$656,570 |
| Costs and expenses: | | |
| Cost of revenues | 809,727 | 537,330 |
| Research and development | 59,587 | 56,425 |
| Selling, general and administrative | 61,988 | 48,518 |
| Total costs and expenses | 931,302 | 642,273 |
| Operating income | 85,232 | 14,297 |
| Interest and other income (expense), net | 5,676 | (5,604) |
| Income before income taxes | 90,908 | 8,693 |
| Provision for income taxes | 13,636 | 1,304 |
| Net income | \$ 77,272 | \$ 7,389 |
| Earnings per common and common equivalent share (Note 2): | | |
| Primary | \$ 1.63 | \$.20 |
| Fully diluted | \$ 1.55 | \$.19 |
| Common and common equivalent shares used in computing per share amounts: | | |
| Primary | 47,473 | 37,020 |
| Fully diluted | 51,353 | 38,984 |

The accompanying notes are an integral part of these financial statements.

WESTERN DIGITAL CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | DECEMBER 31, 1994 | JUNE 30, 1994 |
|---|----------------------|------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$208,928 | \$243,484 |
| Short-term investments (Note 1) | 71,571 | -- |
| Accounts receivable, less allowance for doubtful accounts of \$10,373 and \$10,825 | 239,722 | 201,512 |
| Inventories (Note 3) | 111,483 | 79,575 |
| Prepaid expenses | 25,808 | 12,917 |
| | ----- | ----- |
| Total current assets | 657,512 | 537,488 |
| Property and equipment, at cost, less accumulated depreciation and amortization | 83,850 | 73,417 |
| Intangible and other assets, net | 31,238 | 29,608 |
| | ----- | ----- |
| Total assets | \$772,600 | \$640,513 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$212,913 | \$172,730 |
| Accrued expenses | 107,777 | 103,014 |
| | ----- | ----- |
| Total current liabilities | 320,690 | 275,744 |
| Convertible subordinated debentures (Note 4) | 56,040 | 58,646 |
| Deferred income taxes | 23,570 | 17,884 |
| Commitments and contingent liabilities (Note 5) | | |
| Shareholders' equity: | | |
| Preferred stock, \$.10 par value; Authorized: 5,000 shares Outstanding: None | -- | -- |
| Common stock, \$.10 par value; Authorized: 95,000 shares Outstanding: 45,617 shares at December 31 and 44,895 shares at June 30 | 4,561 | 4,490 |
| Additional paid-in capital | 290,193 | 283,475 |
| Retained earnings | 77,546 | 274 |
| | ----- | ----- |
| Total shareholders' equity | 372,300 | 288,239 |
| | ----- | ----- |
| Total liabilities and shareholders' equity . | \$772,600 | \$640,513 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

WESTERN DIGITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | SIX-MONTH PERIOD ENDED | |
|--|------------------------|----------------------|
| | DECEMBER 31, 1994 | DECEMBER 25, 1993 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 77,272 | \$ 7,389 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 19,615 | 26,382 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (38,210) | (17,732) |
| Inventories | (31,908) | 15,950 |
| Prepaid expenses | (12,891) | (1,340) |
| Accounts payable and accrued expenses | 44,946 | 32,397 |
| Intangible and other assets | (2,765) | (505) |
| Deferred income taxes | 5,686 | (1,129) |
| Net cash provided by operating activities | 61,745 | 61,412 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Increase in short-term investments | (71,571) | -- |
| Capital expenditures, net | (28,913) | (9,131) |
| Proceeds from the sale of facility | -- | 103,942 |
| Net cash provided by (used for) investing activities | (100,484) | 94,811 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of debt | -- | (107,307) |
| Exercise of stock options and warrants | 4,183 | 2,093 |
| Net cash provided by (used for) financing activities | 4,183 | (105,214) |
| Net increase (decrease) in cash and cash equivalents | (34,556) | 51,009 |
| Cash and cash equivalents, beginning of period | 243,484 | 33,837 |
| Cash and cash equivalents, end of period | \$ 208,928 | \$ 84,846 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid during the period for: | | |
| Interest | \$ 2,718 | \$ 5,619 |
| Income taxes | 4,115 | 310 |

The accompanying notes are an integral part of these financial statements.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accounting policies followed by the Company are set forth in Note 1 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 1994.

All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments and are carried at cost, which approximates market.

2. Primary earnings per share amounts are based upon the weighted average number of shares and dilutive common stock equivalents for each period presented. Fully diluted earnings per share additionally reflect dilutive shares assumed to be issued upon conversion of the Company's convertible subordinated debentures.
3. Inventories comprised the following:

| | DECEMBER 31, 1994 ----- (in thousands) | JUNE 30, 1994 ----- |
|---|---|---------------------------|
| Finished goods | \$ 38,328 | \$ 27,847 |
| Work in process | 45,312 | 32,178 |
| Raw materials and component parts | 27,843 | 19,550 |
| | ----- | ----- |
| | \$ 111,483 | \$ 79,575 |
| | ===== | ===== |

4. During the six months ended December 31, 1994, approximately \$2.6 million of the Company's 9% convertible subordinated debentures, due 2014, were converted into 180,345 shares of the Company's common stock.

Subsequent to December 31, 1994, approximately \$15.6 million of the convertible subordinated debentures were converted into 1,077,921 shares of the Company's common stock.

5. On November 8, 1994, the Company entered into a patent cross-license agreement with International Business Machines Corporation ("IBM"). The license granted from IBM covers the Company's entire product line. Under the agreement, the Company will make a series of payments to IBM. The payments are not expected to have a material impact on the Company.
5. In the opinion of management, all adjustments necessary to fairly state the results of operations for the three and six months ended December 31, 1994 and December 25, 1993 have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 1994.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net income for the second quarter of 1995 was \$42.6 million, compared with \$12.5 million in the corresponding quarter of the prior year and \$34.7 million in the immediately preceding quarter. Net income for the six months ended December 31, 1994 was \$77.3 million, compared with \$7.4 million for the same period a year ago. Revenue for the three month period ended December 31, 1994 increased 49% to \$551.9 million from \$371.1 million in the second quarter of 1994 and 19% from the first quarter of 1995. For the six months ended December 31, 1994, revenue totaled \$1.0 billion, a 55% increase over revenue of \$656.6 million for the same period a year ago.

Revenue for drive products totaled \$499.8 million in the second quarter of 1995, an increase of \$85.9 million or 21% from the first quarter of 1995, as a result of an 18% increase in drive units shipped. Revenue for drive products for the three and six months ended December 31, 1994 increased \$167 million or 50% and \$338.5 million or 59%, respectively, over the corresponding periods of the prior year. These increases were attributable to a 63% and 55% increase in drive units shipped over the corresponding three and six month periods, respectively, of the prior year, offset by a decline in average selling prices ("ASPs").

Revenue for microcomputer products ("MCP") totaled \$52.1 million in the second quarter of 1995, up slightly over the first quarter of 1995. Revenue for MCP for the three and six months ended December 31, 1994 increased \$13.8 million or 36% and \$21.5 million or 26%, respectively, as compared with the corresponding periods of the prior year, reflecting increased sales of the Company's portable graphics accelerator chips.

Gross margin decreased from 21% in the first quarter of 1995 to 20% in the second quarter of 1995, reflecting a one percentage point decrease in drive gross margin. Drive gross margin was 17.4% for the second quarter of 1995, a one percentage point decrease from the second quarter of 1994. The decline in drive gross margin resulted from a change in the mix of products sold and a 9% decline in ASPs, which were not fully offset by reductions in product costs. Drive gross margin was 18.1% for the first half of 1995, a two percentage point improvement over the corresponding period of the prior year. MCP gross margin for the three and six month periods of the current fiscal year was 42% and 40.7%, respectively, an increase of approximately 11 and ten percentage points, respectively, over the same periods of the prior year. The improvements in MCP gross margins were primarily attributable to the cost benefits realized from selling its wafer fabrication facility during 1994, which reduced product costs.

Research and development ("R&D") expense in the current quarter increased \$2.2 million over the immediately preceding quarter. R&D expense for the three and six months ended December 31, 1994 increased \$.8 million or 3% and \$3.2 million or 6%, respectively, as compared with the corresponding periods of the prior year. These increases were primarily attributable to planned expenditures to support new product introductions for the current fiscal year.

Selling, general and administrative ("SG&A") expense for the second quarter of 1995 was essentially unchanged from the first quarter of 1995. SG&A expense for the three and six months ended December 31, 1994 increased \$4.4 million or 17% and \$13.5 million or 28%, respectively, as compared with the corresponding periods of the prior year. These increases are primarily the result of increased selling and marketing expenses in support of higher revenue levels and higher variable compensation plan accruals.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest and other income for the current quarter was \$2.7 million, comprising net interest income of \$1.6 million and a \$1.1 million gain from the sale of stock held for investment. Net interest income was \$1.6 million and \$2.5 million for the three and six months ended December 31, 1994, respectively, an improvement of \$4.2 million and \$8.2 million, respectively, over net interest expense in the corresponding periods of the prior year. This improvement is the result of significantly lower levels of debt outstanding period-to-period and higher average cash balances. As compared with the immediately preceding quarter, interest and other income was essentially unchanged.

FINANCIAL CONDITION

Cash and short-term investments totaled \$280.5 million at December 31, 1994 as compared with \$243.5 million at June 30, 1994. Cash flows from operations were \$61.7 million, with cash flows from earnings, net of depreciation, and an increase in payables being offset by cash used to fund increases in accounts receivable and inventories. Capital additions for the first half of 1995 totaled \$28.9 million and were incurred primarily for increased disk drive manufacturing and wafer testing capacity.

Notwithstanding the significant improvements in financial position realized over the past year, the ability of the Company to sustain its improved working capital management and to continue operating profitably is dependent upon a number of factors including competitive conditions in the marketplace, general economic conditions, the efficiency of the Company's manufacturing operations, procurement of fabricated wafers and finished integrated circuits from outside suppliers and the timely development and introduction of new products which address market needs.

PART II. OTHER INFORMATION

ITEM 4. Submission of Matters to Vote of Security Holders

The annual meeting of shareholders was held on November 10, 1994. The shareholders approved the following proposals:

| | | Number of Votes | |
|----|--|-----------------|-----------|
| | | ----- | ----- |
| | | For | Against* |
| | | --- | ----- |
| 1. | To approve the amendment and restatement of the Company's Employee Stock Option Plan. | 24,883,910 | 7,282,291 |
| 2. | To approve an amendment to the Company's Stock Option Plan for Non-Employee Directors which will extend the term of such plan for an additional ten-year period. | 23,131,804 | 9,034,397 |

* includes abstentions

ITEM 6. Exhibits and reports on Form 8-K.

(a) Exhibits:

11 Computation of Per Share Earnings.

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN DIGITAL CORPORATION
Registrant

/s/ Scott Mercer
D. Scott Mercer
Executive Vice President,
Chief Financial and Administrative Officer

Date: February 13, 1995

EXHIBIT INDEX

| EXHIBIT NUMBER ----- | DESCRIPTION ----- | SEQUENTIALLY NUMBERED PAGE ----- |
|----------------------------|--|---|
| 11 | Computation of Per Share Earnings. | 12 |

WESTERN DIGITAL CORPORATION
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THREE MONTHS ENDED | | SIX-MONTHS ENDED | |
|---|----------------------|----------------------|----------------------|----------------------|
| | DECEMBER 31, 1994 | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 25, 1993 |
| PRIMARY | | | | |
| Net income | \$ 42,554 | \$ 12,487 | \$ 77,272 | \$ 7,389 |
| | ===== | ===== | ===== | ===== |
| Weighted average number of common shares outstanding during the period . . . | 45,437 | 35,634 | 45,289 | 35,501 |
| Incremental common shares attributable to exercise of outstanding options and warrants | 2,246 | 3,039 | 2,184 | 1,519 |
| | ----- | ----- | ----- | ----- |
| Total shares | 47,683 | 38,673 | 47,473 | 37,020 |
| | ===== | ===== | ===== | ===== |
| Net income per share | \$.89 | \$.32 | \$ 1.63 | \$.20 |
| | ===== | ===== | ===== | ===== |
| FULLY DILUTED | | | | |
| Net income | \$ 42,554 | \$ 12,487 | \$ 77,272 | \$ 7,389 |
| Add back: interest expense, net of income tax effect, applicable to convertible subordinated debentures | 1,111 | -- | 2,223 | -- |
| | ----- | ----- | ----- | ----- |
| | \$ 43,665 | \$ 12,487 | \$ 79,495 | \$ 7,389 |
| | ===== | ===== | ===== | ===== |
| Weighted average number of common shares outstanding during the period . . . | 45,437 | 35,634 | 45,289 | 35,501 |
| Incremental common shares attributable to exercise of outstanding options and warrants | 2,247 | 3,483 | 2,186 | 3,483 |
| Incremental common shares attributable to conversion of convertible subordinated debentures | 3,878 | -- | 3,878 | -- |
| | ----- | ----- | ----- | ----- |
| Total shares | 51,562 | 39,117 | 51,353 | 38,984 |
| | ===== | ===== | ===== | ===== |
| Net income per share | \$.85 | \$.32 | \$ 1.55 | \$.19 |
| | ===== | ===== | ===== | ===== |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1994.

1000
US DOLLARS

| 6-MOS | |
|------------|-------------|
| JUL-1-1995 | JUL-1-1994 |
| | DEC-31-1994 |
| | 1 |
| | 208,928 |
| | 71,571 |
| | 239,722 |
| | 10,373 |
| | 111,483 |
| | 657,512 |
| | 202,700 |
| | 118,850 |
| | 772,600 |
| 320,690 | |
| | 56,040 |
| | 4,561 |
| 0 | |
| | 0 |
| | 367,739 |
| 772,600 | |
| | 1,016,534 |
| 1,016,534 | |
| | 809,727 |
| | 809,727 |
| | 121,575 |
| | 0 |
| (5,676) | |
| | 90,908 |
| | 13,636 |
| 77,272 | |
| | 0 |
| | 0 |
| | 0 |
| | 77,272 |
| | 1.63 |
| | 1.55 |