

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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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 September 28, 1996.

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  
(Address of principal executive offices)

92618  
(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  
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Number of shares outstanding of Common Stock, as of November 1, 1996 is 44,097,913.

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

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

	THREE-MONTH PERIOD ENDED	
	SEPT. 28, 1996	SEPT. 30, 1995
Revenues, net .....	\$883,115	\$558,149
Costs and expenses:		
Cost of revenues .....	770,226	477,357
Research and development .....	34,260	40,723
Selling, general and administrative...	42,860	33,904
Total costs and expenses .....	847,346	551,984
Operating income .....	35,769	6,165
Interest and other income .....	2,911	3,632
Income before income taxes .....	38,680	9,797
Provision for income taxes .....	5,802	1,470
Net income .....	\$ 32,878	\$ 8,327
Earnings per common and common equivalent share (Note 2):		
Primary .....	\$ .71	\$ .16
Fully diluted .....	\$ .70	\$ .16
Common and common equivalent shares used in computing per share amounts:		
Primary .....	46,302	51,641
Fully diluted .....	46,824	51,643

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

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

	SEPT. 28, 1996	JUNE 29, 1996
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 210,664	\$ 182,565
Short-term investments .....	12,947	36,598
Accounts receivable, less allowance for doubtful accounts of \$12,376 and \$9,376 .....	441,954	409,473
Inventories (Note 3) .....	146,282	142,622
Prepaid expenses .....	24,497	23,006
Total current assets .....	836,344	794,264
Property and equipment at cost, net .....	184,227	148,258
Intangible and other assets, net .....	46,171	41,621
Total assets .....	\$1,066,742	\$ 984,143
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 384,294	\$ 345,866
Accrued compensation .....	23,838	30,457
Accrued expenses .....	155,033	137,699
Total current liabilities .....	563,165	514,022
Deferred income taxes .....	16,035	16,229
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, \$.10 par value; Authorized: 5,000 shares Outstanding: None .....	--	--
Common stock, \$.10 par value; Authorized: 95,000 shares Outstanding: 50,666 shares at September 28 and at June 29 .....	5,066	5,066
Additional paid-in capital .....	345,079	349,773
Retained earnings .....	253,348	220,470
Treasury stock-common stock at cost; 6,585 shares at September 28 and 7,095 shares at June 29 (Note 4) .....	(115,951)	(121,417)
Total shareholders' equity .....	487,542	453,892
Total liabilities and shareholders' equity ....	\$1,066,742	\$ 984,143
	=====	=====

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	THREE-MONTH PERIOD ENDED	
	SEPT. 28, 1996	SEPT. 30, 1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 32,878	\$ 8,327
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization .....	14,998	12,363
Changes in current assets and liabilities:		
Accounts receivable .....	(32,481)	(15,307)
Inventories .....	(3,660)	(48,153)
Prepaid expenses .....	(1,491)	(1,136)
Accounts payable and accrued expenses ....	49,143	15,865
Other assets .....	905	669
Deferred income taxes .....	(194)	785
	-----	-----
Net cash provided by (used for) operating activities .....	60,098	(26,587)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in short-term investments .....	23,651	7,487
Capital expenditures, net .....	(48,984)	(16,647)
Increase in other assets .....	(7,438)	(2,625)
	-----	-----
Net cash used for investing activities ....	(32,771)	(11,785)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options exercised .....	4,946	2,203
Proceeds from ESPP shares issued .....	4,378	3,795
Repurchase of common stock (Note 4) .....	(8,552)	(25,983)
	-----	-----
Net cash provided by (used for) financing activities .....	772	(19,985)
	-----	-----
Net increase (decrease) in cash and cash equivalents	28,099	(58,357)
Cash and cash equivalents, beginning of period .....	182,565	217,531
	-----	-----
Cash and cash equivalents, end of period .....	\$ 210,664	\$ 159,174
	=====	=====
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for income taxes .....	\$ 3,777	\$ 1,127

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 29, 1996.
2. Primary and fully diluted earnings per share amounts are based upon the weighted average number of shares and dilutive common stock equivalents for each period presented.
3. Inventories comprised the following:

	SEPT. 28, 1996 -----	JUNE 29, 1996 -----
(in thousands)		
Finished goods.....	\$ 58,634	\$ 72,239
Work in process.....	38,344	31,781
Raw materials and component parts...	49,304	38,602
	-----	-----
	\$146,282	\$142,622
	=====	=====

4. During the quarter ended September 28, 1996, the Company purchased 359,763 shares of its common stock in the open market at a cost of approximately \$8.6 million. During the same period, 289,777 and 579,791 shares were distributed in connection with the Employee Stock Purchase Plan ("ESPP") and common stock option exercises, respectively, for approximately \$9.3 million.
5. In the opinion of management, all adjustments necessary to fairly state the results of operations for the three-month periods ended September 28, 1996 and September 30, 1995 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 29, 1996.

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WHEN USED IN THIS DISCUSSION, THE WORDS "ANTICIPATES", "BELIEVES", "EXPECTS", "INTENDS", "FORECASTS", "PLANS", "FUTURE", "STRATEGY" OR WORDS OF SIMILAR IMPORT ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLISH REVISED FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY WHICH ATTEMPT TO ADVISE INTERESTED PARTIES OF THE FACTORS WHICH AFFECT THE COMPANY'S BUSINESS, INCLUDING THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THIS REPORT, AS WELL AS THE COMPANY'S OTHER PERIODIC REPORTS ON FORMS 10-K, 10-Q AND 8-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

ITEM 2.

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

RESULTS OF OPERATIONS

Consolidated sales were \$883.1 million in the first quarter of 1997, compared with \$820.7 million in the immediately preceding quarter and \$558.1 million in the first quarter of 1996. The growth in revenues stemmed from 7% and 75% increases in hard drive unit shipments over the immediately preceding quarter and the corresponding quarter of the prior year, respectively. The higher volume was partially offset by a decline in the average selling prices of hard drive products. Also, the results in the first quarter of 1996 included revenues from the Company's microcomputer products ("MCP") businesses, which were sold in 1996.

The consolidated gross margin percentage was 12.8% in the first quarter of 1997, compared with 12.7% in the immediately preceding quarter and 14.5% in the first quarter of 1996. The decrease in gross margin percentage from the first quarter of 1996 was primarily due to the sale of the MCP businesses, which had higher average gross profit margins than the Company's hard drive products. The gross margin percentage for hard drive products only in the first quarter of 1996 was 13.0%.

Research and development ("R&D") expense for the current quarter was \$34.3 million, or 3.9% of revenues, versus \$34.0 million, or 4.1% of revenues, and \$40.7 million, or 7.3% of revenues, in the immediately preceding quarter and first quarter of 1996, respectively. The decrease from the prior year is primarily attributable to the elimination of MCP-related expenditures. This decrease was partially offset by higher expenditures to support the development of enterprise and mobile hard drive products. R&D expenses declined as a percentage of revenues from the first and fourth quarters of 1996 primarily as a result of the higher revenue base in the current quarter.

Selling, general and administrative ("SG&A") expenses for the first quarter of 1997 were \$42.9 million, or 4.9% of revenues, as compared to \$39.4 million, or 4.8% of revenues, and \$33.9 million, or 6.1% of revenues, in the immediately preceding quarter and first quarter of 1996, respectively. The increase from the immediately preceding quarter is attributable to incremental selling, marketing and other related expenses in support of the higher revenue levels. SG&A expenses declined as a percentage of revenues from the first quarter of 1996 primarily as a result of the higher revenue base.

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ITEM 2.

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

Net interest and other income for the current quarter was \$2.9 million, as compared to \$3.0 million in the immediately preceding quarter and \$3.6 million in the first quarter of 1996. The decrease from the first quarter of 1996 is primarily the result of lower average cash and short-term investment balances combined with lower average interest rates.

FINANCIAL CONDITION

Cash and short-term investments totaled \$223.6 million at September 28, 1996 as compared with \$219.2 million at June 29, 1996. Net cash provided by operating activities was \$60.1 million for the quarter ended September 28, 1996. Cash flow from earnings, depreciation and an increase in current liabilities were partially offset by cash used to fund increases in accounts receivable and inventories. Other significant uses of cash during the first three months of 1997 were \$49.0 million of capital expenditures, which were incurred primarily to support increased production of hard drives and related components, and the acquisition of approximately .4 million shares of the Company's common stock in the open market for \$8.6 million.

The Company has an \$150 million revolving credit agreement with certain financial institutions extending through April 1999. This facility is intended to meet short-term working capital requirements which may arise from time to time. The Company believes that its current cash and short-term investments combined with cash flow from operations and its revolving credit agreement will be sufficient to meet its working capital needs for the foreseeable future. However, the Company's ability to sustain its favorable working capital position is dependent upon a number of factors that are discussed below and in the Company's Annual Report on Form 10-K for the year ended June 29, 1996 under the heading "Certain Factors Affecting Future Operating Results."

CERTAIN FACTORS AFFECTING WESTERN DIGITAL CORPORATION AND THE DISK DRIVE  
INDUSTRY

The hard drive industry in which the Company competes is subject to a number of risks which have affected the Company's operating results in the past and could affect its future operating results. Demand for the Company's hard drive

products depends on the demand for the computer systems manufactured by its customers and storage upgrades to computer systems, which in turn are affected by computer systems product cycles, end user demand for increased storage capacity, and prevailing economic conditions.

The computing industry is intensely competitive and has been characterized by significant price erosion over the life of a product, periodic rapid price declines due to industry over-capacity or other competitive factors, technological changes, changing market requirements, occasional shortages of materials, dependence upon a limited number of vendors for certain components, dependence upon highly skilled engineering and other personnel, and significant expenditures for product development. The hard drive market in particular has been subject to recurring periods of severe price competition. The Company's principal competitors are Quantum Corporation ("Quantum"), Seagate Technology, Inc. ("Seagate Technology") and large computer manufacturers such as IBM that manufacture drives for use in their own products and for sale to others. In February 1996, Seagate Technology merged with Conner Peripherals, Inc. ("Conner") formerly one of the Company's principal competitors. This merger changed the industry dynamics by reducing the number of competitors and by significantly increasing the size of Seagate Technology. The Company is unable to predict the long-term effects that the merger will have on this industry and/or the Company. The Company has increased its market share recently in part by capitalizing on some missteps made by its competitors. While the Company believes that its products and its marketing efforts will continue to be competitive, there can be no assurance that its competitors will not improve their position in the market through new product introduction or other means.

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ITEM 2.

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

Even during periods of consistent demand, the hard drive industry has been characterized by intense competition and ongoing price erosion over the life of a given drive product, and the Company expects that price erosion in the data storage industry will continue for the foreseeable future. In general, the unit price for a given product in all of the Company's markets decreases over time as increases in industry supply and cost reductions occur and as technological advancements are achieved. Cost reductions are primarily achieved as volume efficiencies are realized, component cost reductions are achieved, experience is gained in manufacturing the product and design enhancements are made. Competitive pressures and customer expectations result in these cost improvements being passed along as reductions in selling prices. At times, the rate of general price decline is accelerated when some competitors lower prices to absorb excess capacity, to liquidate excess inventories and/or to gain market share. The competition and continuing price erosion could adversely affect the Company's results of operations in any given quarter, and such adverse effect often cannot be anticipated until late in any given quarter.

A number of the components used by the Company are available from a single or limited number of outside suppliers. Some of these materials may periodically be in short supply, and the Company has, on occasion, experienced temporary delays or increased costs in obtaining these materials. Because the Company is less vertically integrated than its competitors, an extended shortage of required materials and supplies could have a more severe effect on the Company's revenues and earnings as compared to its competition. The Company must allow for significant lead times when procuring certain materials and supplies. The Company has more than one available source of supply for most of its required materials. Where there is only one source of supply, the Company has entered into close technical and manufacturing relationships, has access to more than one manufacturing location in most instances, and believes that a second source could be obtained over a period of time. However, no assurance can be given that the Company's results of operations would not be adversely affected until a new source could be secured. The supply of headstack assemblies is a critical issue for the Company as it commences volume production of the initial enterprise storage products. It is currently purchasing headstack components from a single vendor but expects to qualify another supplier by the end of December 1996. A shortage in the supply of headstack assemblies could adversely affect the

Company's ability to meet customer demand for enterprise storage products. In addition, the increased customer demand for the Company's desktop storage products has increased the requirements for headstack assemblies, the availability of which may limit the Company's ability to increase production above its current planned levels.

The demand of hard drive customers for greater storage capacity and higher performance has led to short product life cycles that require the Company to constantly develop and introduce new drive products such as the enterprise storage products on a cost effective and timely basis. Failure of the Company to execute its strategy of achieving time-to-market in volume leadership with these new products, or any delay in introduction of more advanced and more cost effective products, could result in significantly lower gross margins. The Company's future is therefore dependent upon its ability to develop new products, to qualify these new products with its customers, to successfully introduce these products to the market on a timely basis, and to commence volume production to meet customer demands.

The Company experiences fluctuations in manufacturing yields that can materially affect the Company's operations, particularly in the start-up phase of new products or new manufacturing processes. With the continued pressures to shorten the time required to introduce new products, the Company must accelerate production learning curves to shorten the time to achieve acceptable manufacturing yields and costs. In this regard, the Company's new enterprise storage products are expected to achieve volume production and contribute to sales beginning in the second quarter of 1997. The Company's inability to successfully achieve its sales goals for its enterprise storage products would significantly impact the Company's future operating results. The Company's future operating results may also be adversely affected if it is unsuccessful in marketing the 3.0-inch form factor hard drive to the mobile PC market.

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ITEM 2.

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

All of the Company's hard drive products currently utilize conventional thin film inductive head technology. The Company believes that MR heads, which enable higher capacity per disk than conventional thin film inductive heads, will eventually replace thin film inductive heads as the leading recording head technology. Several of the Company's major competitors incorporate MR head technology into some of their current products. Failure of the Company to successfully manufacture and market products incorporating MR head technology in a timely manner could have a material adverse effect on the Company's business and results of operations.

The Company's operating results have been and may in the future be subject to significant quarterly fluctuations as a result of a number of other factors. These factors have included the timing of orders from and shipment of products to major customers, product mix, pricing, delays in product development, introduction in production, competing technologies, variations in product cost, component availability due to single or limited sources of supply, foreign exchange fluctuations, increased competition and general economic and industry fluctuations. The Company's future operating results may also be adversely affected by an adverse judgement or settlement in the legal proceedings in which the Company is currently involved. This statement should be read in conjunction with "PART I, Item 3. Legal Proceedings" included in the Company's Annual Report on Form 10-K for the year ended June 29, 1996.

PART II. OTHER INFORMATION

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

(a) Exhibits:

10.12.1 Amendment Number One to the Company's Extended Severance Plan



- 11 Computation of Per Share Earnings.
- 27 Financial Data Schedule
- (b) Reports on Form 8-K:
  - None

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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/Duston Williams

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Duston M. Williams  
Senior Vice President  
and Chief Financial Officer

Date: November 11, 1996

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EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
10.12.1	Amendment Number One to the Company's Extended Severance Plan.....	
11	Computation of Per Share Earnings.....	
27	Financial Data Schedule.....	

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AMENDMENT NUMBER ONE

TO

WESTERN DIGITAL CORPORATION

EXTENDED SEVERANCE PLAN

THIS AMENDMENT NUMBER ONE (this "Amendment") is made as of the 1st day of September, 1995 and, as set forth below, amends and modifies the Western Digital Corporation Extended Severance Plan (the "Plan") established by Western Digital Corporation, a Delaware corporation (the "Company") as of January 18, 1990. Capitalized terms that are not otherwise defined herein shall have the meanings given them in the Plan.

1. DELETION OF SECTION 280G LIMITATION. Section 4.8 of the Plan, entitled "Section 280G Limitation," is hereby deleted in its entirety and shall no longer be of any force or effect.

2. SUBSTITUTION OF TAX INDEMNIFICATION PROVISION. A new Section 4.8 of the Plan, entitled "Indemnification for Excise Tax", is hereby added to and made a part of the Plan, effective the date of this Amendment. The complete text of this new Section 4.8 of the Plan is attached hereto as Exhibit A and incorporated herein by this reference.

3. NO OTHER CHANGES. Except as set forth in this Amendment, the provisions of the Plan remain unaltered and in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment to be adopted and to be effective as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/ Michael A. Cornelius

Title: V.P., Law

By: -----

Title: -----

1.

EXHIBIT A

4.8 INDEMNIFICATION FOR EXCISE TAX.

(a) Notwithstanding anything to the contrary contained herein, in the event it shall be determined that any payment, benefit or distribution provided or to be provided by the Company (or by any person whose actions result in a Change of Control or any person affiliated with the Company or such person) to or for the benefit of a Participant (whether provided, or to be provided, pursuant to the terms of the Plan or under any other agreement, plan or arrangement with the Company (or with any person whose actions result in a Change of Control or any person affiliated with the Company or such person), but determined without regard to any additional payments required under this Section 4.8) (a "Payment"), would be subject to any excise tax imposed by Section 4999 of the code or any comparable federal, state or local excise tax (such excise tax, together with any related interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Participant shall be

entitled to receive from the Company an additional payment (a "Gross-Up Payment") in such an amount that after the payment of all taxes on the Payment and on the Gross-Up Payment (including interest and penalties attributable to all taxes on the Gross-Up Payment or the Excise Tax but excluding interest and penalties attributable to the Payment itself), the Participant shall retain an amount equal to the Payment minus all applicable taxes on the Payment itself (other than the Excise Tax on the Payment); provided, however, that a Participant will be entitled to receive a Gross-Up Payment only if the amount of "parachute payment" as defined in Section 280G(b)(2) of the Code exceeds the sum of (A) the lesser of (i) \$100,000 or (ii) ten (10) percent of the Payment plus (B) 2.99 times the Participant's "base amount" as defined in Section 280G(b)(3) of the Code, and provided, further, that if a Participant is not entitled to receive a Gross-Up Payment, the Participant will receive only an amount of total Payment that would not include any "excess parachute payment" as defined in Section 280G(b)(1) of the Code. The intent of the parties is that, unless a Payment is reduced under the circumstances provided immediately above, the Company shall be solely responsible for, and shall pay, any Excise Tax on any Payment and Gross-Up Payment and any income and employment taxes (including, without limitation, penalties and interest) imposed on any Gross-Up Payment, as well as any loss of tax deduction caused by the Gross-Up Payment. An example of a calculation of the Gross-Up Payment is appended.

(b) All determinations required to be made under this Section , including, without limitation, whether and when a Gross-Up Payment is required and the amount of such Gross-Up payment and the assumptions to be utilized in arriving at such determinations, shall be made by Price Waterhouse or any other nationally recognized accounting firm which is the Company's outside auditor at the time of such determinations, which firm must be reasonably acceptable to the Participant (the

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"Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations to the Company and the Participant within fifteen (15) business days after notice is given by the Participant to the Company that there has been a Payment, or such earlier time as is requested by the Company. Within two (2) business days after said notice is given to the Company, the Company shall instruct the Accounting Firm to timely provide the data required by this Section 4.8 to the Participant. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment as determined pursuant to this Section 4.8 shall be paid, or caused to be paid, by the Company to the Internal Revenue Service and/or other appropriate taxing authority on the Participant's behalf within five (5) days after receipt of the Accounting Firm's determination. If the Accounting Firm determines that there is substantial authority (within the meaning of Section 6662 of the Code) that no Excise Tax is payable by the Participant, the Accounting Firm shall furnish the Participant with a written opinion that failure to disclose or report the Excise Tax on the Participant's federal income tax return will not constitute a substantial understatement of tax or be reasonably likely to result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Participant in the absence of material mathematical or legal error. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that a Gross-Up Payment will not have been made by the Company that should have been made ("Underpayment") or that a Gross-Up Payment is made that should not have been made ("Overpayment"), in each case, consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Paragraph (c) below and the Participant thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of Underpayment that has occurred and any such Underpayment shall be promptly paid, or caused to be paid, by the Company to the Internal Revenue Service or other appropriate taxing authority on the Participant's behalf or, if such Underpayment has been previously paid by the Participant, to the Participant. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Participant with interest at applicable federal rate provided for in Section 7872(f)(2) of the Code, due and payable within ninety (90) days after written demand to the Participant by the Company; provided, however, that the Participant shall have no duty or obligation whatsoever to repay said loan unless and then to the extent the Participant's receipt of the Overpayment, or any portion thereof, is includible in the Participant's income and the

Participant's repayment of the same is not deductible by the Participant for federal and state income tax purposes.

(c) The Participant shall notify the Company in writing of any claim by the Internal Revenue Service or state or local taxing authority that, if successful, would result in any Excise Tax or an Underpayment ("Claim"). Such notice shall be given as soon as practicable but no later than fifteen (15) business days after the

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Participant is informed in writing of the Claim and shall fully inform the Company of the nature of the Claim, the administrative or judicial appeal period, and the date on which any payment of the Claim must be paid. The Participant shall not pay any portion of the Claim prior to the expiration of the thirty (30) day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any amount under the Claim is due). If the Company notifies the Participant in writing prior to the expiration of such thirty (30) day period that it desires to contest the Claim, the Participant shall:

(A) give the Company any information reasonably requested by the Company relating to the Claim;

(B) take such action in connection with the contesting the Claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation concerning the Claim by an attorney selected by the Company who is reasonably acceptable to the Participant; and

(C) cooperate with the Company in good faith in order to effectively contest the Claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, without limitation, additional interest and penalties and attorneys' fees) incurred in such contests and shall indemnify and hold the Participant harmless, on an after-tax basis, for any Excise Tax or income tax (including, without limitation, interest and penalties thereon) imposed as a result of such representation. Without limitation upon the foregoing provisions of this Section 4.8(c) and except as provided below, the Company shall control all proceedings concerning such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority pertaining to the Claim. At the written request of the Company and upon payment to the Participant of an amount at least equal to the Claim plus any additional amount necessary to obtain the jurisdiction of the appropriate tribunal and/or court ("Additional Sum"), the Participant shall pay the same and sue for a refund. The Participant agrees to prosecute any contest of a Claim to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company requests the Participant to pay the Claim and sue for a refund, it shall indemnify and hold the Participant harmless on an after-tax basis from any Excise Tax or income tax (including, without limitation, interest and penalties thereon) imposed on such advance or for any imputed income on such advance. Any extension of the statute of limitations relating to assessment of any Excise Tax for the taxable year of the Participant which is the subject of the Claim is to be limited solely to the Claim. Furthermore, the Company's control of the contest shall be limited to issues for which a Gross-Up Payment would be

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payable hereunder. The Participant shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Participant of an amount advanced by the Company pursuant to Section 4.8(c) above, the Participant receives any refund of a Claim and/or any Additional Sum, the Participant shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Participant of an amount advanced by the Company pursuant to Section 4.8(c)

above, a determination is made that the Participant shall not be entitled to any refund of the Claim and the Company does not notify the Participant in writing of its intent to contest such denial of refund of a Claim prior to the expiration of thirty (30) days after such determination, then the portion of such advance attributable to a Claim shall be forgiven and shall not be required to be repaid. The amount of such advance attributable to a Claim shall offset, to the extent thereof, the amount of the Underpayment required to be paid by the Company to the Participant.

(e) If, after the advance of an Additional Sum by the Company, there is a "Final Determination" (as defined below) made by the taxing authority that the Participant is not entitled to any refund of such Additional Sum, or any portion thereof, then such nonrefundable amount shall be repaid to the Company by the Participant within thirty (30) days after the Participant receives notice of such Final Determination. A "Final Determination" shall occur when the period to contest or otherwise appeal any decision by an administrative tribunal or court of initial jurisdiction has been waived or the time for contesting or appealing same has expired.

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GROSS-UP FACTOR

APPLICABLE TAX RATES

INCOME TAXES:

FEDERAL MAXIMUM RATE		36.000%
FEDERAL SURTAX		3.600%
FEDERAL TAX EFFECT OF ITEMIZED DEDUCTION PHASE OUT		1.188%
		-----
TOTAL FEDERAL INCOME TAX RATE		40.788%

CALIFORNIA MAXIMUM RATE	11.000 %	
Less: FEDERAL BENEFIT OF DEDUCTION	(4.356) %	
	-----	
NET CALIFORNIA INCOME TAX RATE		6.64%
		-----

TOTAL INCOME TAX RATE		47.432%
-----------------------	--	---------

EMPLOYMENT TAXES:

RATE FOR HI PORTION OF FICA		1.450%
		-----

RATE OF INCOME AND EMPLOYMENT TAXES IMPOSED ON GROSS-UP PAYMENT		48.882%
		=====

EXCISE TAX:

RATE OF FEDERAL EXCISE TAX ON EXCESS PARACHUTE PAYMENTS AND GROSS-UP PAYMENT		20.000%
		=====

THE GROSS-UP PAYMENT ("GUP") IS AN AMOUNT SUFFICIENT TO SATISFY THE LIABILITY FOR FEDERAL EXCISE TAX ON THE EXCESS PARACHUTE PAYMENTS ("EPP") EXCLUSIVE OF THE GROSS-UP PAYMENT, THE EXCISE TAX ON THE GROSS-UP PAYMENT, AND THE INCOME AND EMPLOYMENT TAXES IMPOSED ON THE GROSS-UP PAYMENT.

EXPRESSED ALGEBRAICALLY...

$$GUP = .2EPP + .2GUP + .48882GUP$$

$$GUP = .2EPP + .68882GUP$$

$$.31118GUP = .2EPP$$

$$GUP = .6427148EPP$$

THEREFORE, GIVEN THE TAX RATE ASSUMPTIONS SET FORTH ABOVE, THE GROSS-UP PAYMENT WOULD EQUAL 64.27148% OF THE EXCESS PARACHUTE PAYMENT.

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EXAMPLE:

PARACHUTE PAYMENTS	500,000
BASE AMOUNT	100,000
	-----
EXCESS PARACHUTE PAYMENTS	400,000
GROSS-UP FACTOR	64.27148 %
	-----
GROSS-UP PAYMENT	257,086
PARACHUTE PAYMENTS	500,000
	-----
TOTAL PAYMENTS	757,086
LESS EXCISE TAX ON EXCESS PARACHUTE PAYMENTS AND GROSS-UP PAYMENT (.2 x [400,000 + 257,086])	(131,417)
LESS INCOME AND EMPLOYMENT TAXES ON GROSS-UP PAYMENT (.48882 x 257,086)	(125,669)
	-----
NET PAYMENT RETAINED BY THE PARTICIPANT	500,000
	=====

6.

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

	THREE-MONTH PERIOD ENDED	
	SEPT. 28, 1996	SEPT. 30, 1995
	-----	-----
PRIMARY		
Net income .....	\$32,878	\$ 8,327
	=====	=====
Weighted average number of common shares outstanding during the period .....	43,744	49,574
Incremental common shares attributable to exercise of outstanding options, warrants, put options and ESPP contributions...	2,558	2,067
	-----	-----
Total shares .....	46,302	51,641
	=====	=====
Net income per share .....	\$ .71	\$ .16
	=====	=====
FULLY DILUTED		
Net income .....	\$32,878	\$ 8,327
	=====	=====
Weighted average number of common shares outstanding during the period .....	43,744	49,574
Incremental common shares attributable to exercise of outstanding options, warrants, put options and ESPP contributions	3,080	2,069
	-----	-----
Total shares .....	46,824	51,643
	=====	=====
Net income per share .....	\$ .70	\$ .16
	=====	=====

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED INCOME STATEMENTS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH QUARTERLY REPORT ON FORM 10-Q FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 28, 1996.

</LEGEND>

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