UNITED STATES

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 29, 2000.

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	95-2647125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20511 Lake Forest Drive Lake Forest, California	92630
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (949) 672-7000
REGISTRANT'S WEB SITE: HTTP://WWW.WESTERNDIGITAL.COM

8105 Irvine Center Drive, Irvine, California, 92618.

(Former address)

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 January 26, 2001, is 174,520,743.

WESTERN DIGITAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000
Revenues, net	$ 560,174	$ 530,720
Costs and expenses:		
Cost of revenues	539,932	467,209
Research and development	44,083	37,367
Selling, general and administrative	39,070	35,771
Restructuring charges	25,535	--
Total costs and expenses	648,620	540,347
Operating loss	(88,446)	(9,627)
Net interest and other income (expense)	(3,028)	839
Loss before extraordinary item	(91,474)	(8,788)
Extraordinary gain from redemption of debentures	76,277	10,576
Net income (loss)	$ (15,197)	$ 1,788
Income (loss) per common share:		
Before extraordinary item	$ (.76)	$ (.05)
Extraordinary item	.63	.06
Basic and diluted	$ (.13)	$ .01
Common shares used in computing per share amounts:		
Basic and diluted	121,128	171,175

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	SIX-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000
Revenues, net	$ 967,131	$ 970,942
Costs and expenses:		
Cost of revenues	1,012,232	881,702
Research and development	94,226	72,328
Selling, general and administrative	82,892	69,670
Restructuring charges	57,835	--
Total costs and expenses	1,247,185	1,023,700
Operating loss	(280,054)	(52,758)
Net interest and other expense	(8,357)	(793)
Loss before extraordinary item	(288,411)	(53,551)
Extraordinary gain from redemption of debentures	166,899	21,819
Net loss	$ (121,512)	$ (31,732)
Loss per common share:		
Before extraordinary item	$ (2.66)	$ (.34)
Extraordinary item	1.54	.14
Basic and diluted	$ (1.12)	$ (.20)
Common shares used in computing per share amounts:		
Basic and diluted	108,523	159,609

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JUNE 30, 2000	DEC. 29, 2000 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 184,021	$ 179,383
Accounts receivable, less allowance for doubtful accounts of $13,316 at June 30, 2000 and $13,343 at December 29, 2000	149,135	173,966
Inventories	84,546	78,177
Prepaid expenses and other current assets	33,693	10,341
Total current assets	451,395	441,867
Property and equipment at cost, net	98,952	104,734
Other assets, net	65,227	44,336
Total assets	$ 615,574	$ 590,937
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 266,841	$ 263,001
Accrued expenses	137,866	109,577
Accrued warranty	40,359	35,752
Total current liabilities	445,066	408,330
Other liabilities	44,846	44,467
Convertible debentures	225,496	113,203
Minority interest	10,000	9,251
Shareholders' equity (deficiency):		
Preferred stock, $.01 par value; Authorized: 5,000 shares Outstanding: None	--	--
Common stock, $.01 par value; Authorized: 225,000 shares Outstanding: 153,335 shares at June 30, 2000 and 183,191 at December 29, 2000	1,534	1,832
Additional paid-in capital	549,932	708,398
Accumulated deficit	(482,857)	(514,589)
Accumulated other comprehensive income (loss)	1,367	(10,032)
Treasury stock-common stock at cost; 9,773 shares at June 30, 2000 and 8,744 shares at December 29, 2000	(179,810)	(169,923)
Total shareholders' equity (deficiency)	(109,834)	15,686
Total liabilities and shareholders' equity (deficiency)	$ 615,574	$ 590,937

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

	SIX-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(121,512)	$ (31,732)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-Cash Items:		
Depreciation and amortization	47,223	26,787
Interest on convertible debentures	9,617	4,329
Non-cash portion of restructuring charges	28,804	--
Extraordinary gain on debenture redemptions	(166,899)	(21,819)
Changes in assets and liabilities:		
Accounts receivable	75,075	(14,831)
Inventories	42,365	3,369
Prepaid expenses and other assets	10,952	1,797
Accrued warranty	(9,256)	(9,743)
Accounts payable and accrued expenses	(18,933)	(29,129)
Other	1,325	(2,946)
Net cash used for operating activities	(101,239)	(73,918)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property and equipment	37,019	--
Capital expenditures, net	(13,843)	(26,895)
Proceeds from sales of marketable equity securities	--	14,979
Other	(2,200)	--
Net cash provided by (used for) investing activities	20,976	(11,916)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from ESPP shares issued and stock options exercised	1,627	3,522
Repayment of bank debt	(33,375)	--
Common stock issued for cash	49,539	72,674
Proceeds from subsidiary bridge loan	--	5,000
Net cash provided by financing activities	17,791	81,196
Net decrease in cash and cash equivalents	(62,472)	(4,638)
Cash and cash equivalents, beginning of period	226,147	184,021
Cash and cash equivalents, end of period	$ 163,675	$ 179,383
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$ 1,082	$ 1,089
Cash paid during the period for interest	1,928	84

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

WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

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 as of and for the year ended June 30, 2000.

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 of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. 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 as of and for the year ended June 30, 2000.

The Company has a 52 or 53-week fiscal year. In order to align its manufacturing and financial calendars, effective during the three months ended December 31, 1999, the Company changed its fiscal calendar so that each fiscal month ends on the Friday nearest to the last day of the calendar month. Prior to this change, the Company's fiscal month ended on the Saturday nearest to the last day of the calendar month. The change did not have a material impact on the Company's results of operations or financial position. All general references to years relate to fiscal years unless otherwise noted.

2. Supplemental Financial Statement Data (in thousands)

	JUNE 30, 2000	DEC. 29, 2000
Inventories:		
Finished goods	$69,033	$57,150
Work in process	11,253	13,706
Raw materials and component parts	4,260	7,321
	$84,546	$78,177

	THREE-MONTH PERIOD ENDED		SIX-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000	DEC. 31, 1999	DEC. 29, 2000
Net Interest and Other Income (Expense):				
Interest income	$ 2,006	$ 2,109	$ 4,486	$ 3,950
Realized investment losses	--	--	--	(738)
Interest expense	(5,034)	(1,663)	(12,843)	(4,754)
Minority interest in losses of consolidated subsidiary	--	393	--	749
	$(3,028)	$ 839	$ (8,357)	$ (793)

	SIX-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued for redemption of convertible debentures	$110,109	$ 92,456
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs	$277,008	$114,275

3. Loss per Share

As of December 31, 1999 and December 29, 2000, 24.0 and 24.4 million shares, respectively, relating to the possible exercise of outstanding stock options were not included in the computation of diluted loss per share. As of December 31, 1999 and December 29, 2000, an additional 8.4 and 4.1 million shares, respectively, issuable upon conversion of the convertible debentures were excluded from the computation of diluted loss per share. The effects of these items were not included in the computation of diluted loss per share as their effect would have been anti-dilutive to the basic loss per share before extraordinary items.

4. Common Stock Transactions

During the six months ended December 29, 2000, the Company issued approximately 686,000 shares of its common stock in connection with Employee Stock Purchase Plan ("ESPP") purchases and 343,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $3.5 million. During the corresponding period of the prior year, the Company issued approximately 362,000 shares of its common stock in connection with ESPP purchases and 52,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $1.6 million.

Under an existing shelf registration (the "equity facility"), the Company may issue shares of common stock to institutional investors for cash. Shares sold under the equity facility are at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25%. During the six months ended December 29, 2000, the Company issued 14.5 million shares of common stock under the equity facility for net cash proceeds of $72.7 million. During the corresponding period of the prior year, the Company issued 11.2 million shares of common stock for net cash proceeds of $49.5 million. As of December 29, 2000, the Company had $200.0 million remaining under the equity facility.

During the six months ended December 31, 1999, the Company issued 26.7 million shares of common stock to redeem a portion of its 5.25% zero coupon convertible subordinated debentures (the "Debentures") with a book value of $284.1 million, and an aggregate principal amount at maturity of $735.6 million. During the six months ended December 29, 2000, the Company issued 15.4 million shares of common stock to redeem a portion of the Debentures with a book value of $116.6 million and an aggregate principal amount at maturity of $286.9 million. These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors. The redemptions resulted in extraordinary gains of $166.9 million and $21.8 million during the six months ended December 31, 1999 and December 29, 2000, respectively. As of December 29, 2000, the book value of the remaining outstanding Debentures was $113.2 million and the aggregate principal amount at maturity was $274.7 million.

5. Credit Facility

The Company has a three-year Senior Credit Facility for its hard drive solutions division ("HDS"), which provides up to $125 million in revolving credit (subject to a borrowing base calculation) and is secured by HDS's accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of HDS, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. The Senior Credit Facility requires HDS to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the facility.

6. Real Property Transactions

On August 9, 1999, the Company sold approximately 34 acres of land in Irvine, California for $26 million (the approximate cost of the land). During December 1999, the Company received $11.0 million for the sale of its enterprise drive manufacturing facility in Tuas, Singapore.

The Company's lease of its corporate headquarters in Irvine, California, expired in January 2001. The Company has signed a new 10-year lease agreement for a facility in Lake Forest, California and has relocated its corporate headquarters to the facility.

7. Restructuring Activities

During the six months ended December 31, 1999, the Company initiated restructuring actions to improve operational efficiency. The restructuring actions included the reorganization of worldwide operational and management responsibilities, transfer of hard drive production from Singapore to the Company's manufacturing facility in Malaysia, removal of property and equipment from service and closure of the Company's Singapore operations. These actions resulted in a net reduction of worldwide headcount of approximately 1,600, of which approximately 140 were management, professional and administrative personnel and the remainder was manufacturing employees. Restructuring charges recorded in connection with these actions totaled $57.8 million during the six months ended December 31, 1999, and consisted of severance and outplacement costs of $18.0 million, the write-off of manufacturing equipment and information systems assets of $28.8 million (taken out of service and held for disposal), and net lease cancellation and other costs of $11.0 million.

As of June 30, 2000, the Company had approximately $3.9 million of restructuring accruals remaining from its restructuring actions initiated during 2000. During the six months ended December 29, 2000, the Company paid approximately $2.7 million for severance and lease settlements, leaving an accrual balance of approximately $1.2 million as of December 29, 2000.

8. Product Recall

On September 27, 1999, the Company announced a recall of its 6.8GB per platter series of WD Caviar(R) desktop hard drives because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. Approximately 1.2 million units were manufactured with the faulty chip. Replacement of the chips involved rework of the printed circuit board assembly. Cost of revenues for the three months ended October 2, 1999 included charges totaling $37.7 million for estimated costs to recall and repair the affected drives, consisting of $23.1 million for repair and retrieval, $4.5 million for freight and other, and $10.1 million for write-downs of related inventory.

9. Investments in Marketable Securities

As of June 30, 2000, the Company owned approximately 10.8 million shares of Komag common stock, which, when acquired on April 8, 1999, had a fair market value of $34.9 million. During the three months ended September 29, 2000, the Company sold 4.9 million shares of the stock for $15.0 million. The 5.9 million remaining Komag shares owned by the Company can be sold on or after the following dates: 1.6 million shares on October 8, 2000; 3.2 million shares on October 8, 2001; and 1.1 million shares on October 8, 2002. The 1.6 million shares and the 3.2 million shares, available for sale on October 8, 2000 and October 8, 2001, respectively, have been classified as current assets and "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Investments in Certain Debt and Equity Securities" ("SFAS 115"). These shares were marked to market value using published closing prices of Komag stock as of December 29, 2000 and a related accumulated unrealized loss of $12.5 million was included in accumulated other comprehensive income (loss). The aggregate book value of the total 5.9 million Komag shares was $6.7 million as of December 29, 2000, of which $3.2 million related to the 4.8 million shares classified as current.

As of December 29, 2000, the Company owned approximately 1.3 million shares of Vixel Corporation ("Vixel") common stock. The Company has also identified these shares as "available for sale" under the provisions of SFAS 115, and accordingly, the shares were marked to market value. At December 29, 2000 an unrealized gain of $2.5 million was included in accumulated other comprehensive income (loss). The aggregate book value of the shares was $2.5 million as of December 29, 2000, and the investment was classified as current.

10. Other Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity (deficiency) but are excluded from net income (loss). The Company's other comprehensive income (loss) is comprised of unrealized gains and losses on marketable securities categorized as "available for sale" under SFAS 115. The components of total comprehensive loss for the three and six months ended December 31, 1999 and December 29, 2000 were as follows (in millions):

	THREE-MONTH PERIOD ENDED		SIX-MONTH PERIOD ENDED	
	DEC. 31, 1999	DEC. 29, 2000	DEC. 31, 1999	DEC. 29, 2000
Net income (loss)	$(15.2)	$ 1.8	$(121.5)	$(31.7)
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale investments, net	1.5	(18.9)	25.6	(11.4)
Total comprehensive loss	$(13.7)	$(17.1)	$ (95.9)	$(43.1)

11. Business Segment

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") in 1999. SFAS 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports.

The Company has new business ventures that it began developing in 1999 and 2000 and which did not meet the separate disclosure requirements under SFAS 131 in those periods. The Company's new business ventures include Connex, Inc. ("Connex"), SageTree, Inc. ("SageTree") and Keen Personal Media, Inc. ("Keen PM"). Connex delivers enterprise-class storage functionality for the department and mid-sized business markets, including network attached storage and storage management software for storage area networks. SageTree designs and markets packaged analytical applications and related services for supply chain and product lifecycle intelligence. Keen PM provides interactive broadband software, services and hardware for television and Internet content management and television-based electronic commerce. In accordance with SFAS 131, the Company has combined the results of its new ventures in an "all other" category in order to report the HDS segment results separately which is consistent with the segment information used by the chief operating decision maker in 2001 to assess performance and evaluate how to allocate resources. General and corporate expenses of the Company are included in the HDS segment.

Segment information (in thousands):

	THREE-MONTH PERIOD ENDED DEC. 29, 2000			SIX-MONTH PERIOD ENDED DEC. 29, 2000		
	HDS	ALL OTHER	TOTAL	HDS	ALL OTHER	TOTAL
Revenues	$530,583	$ 137	$ 530,720	$ 970,376	$ 566	$ 970,942
Operating income (loss)	10,184	(19,811)	(9,627)	(16,841)	(35,917)	(52,758)
Income (loss) before extraordinary item	10,606	(19,394)	(8,788)	(18,464)	(35,087)	(53,551)
Total assets	564,492	26,445	590,937	564,492	26,445	590,937
Depreciation and amortization	11,999	1,028	13,027	24,723	2,064	26,787
Additions to property and equipment	16,265	43	16,308	25,805	1,090	26,895

12. Legal Proceedings

In 1992 Amstrad plc ("Amstrad") brought suit against the Company in California State Superior Court, County of Orange, alleging that disk drives supplied to Amstrad by the Company in 1988 and 1989 were defective and caused damages to Amstrad of not less than $186 million. The suit also sought punitive damages. The Company denied the material allegations of the complaint and filed cross-claims against Amstrad. The case was tried, and in June 1999 the jury returned a verdict in favor of Western Digital. Amstrad has appealed the judgment. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In 1994 Papst Licensing ("Papst") brought suit against the Company in federal court in California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchased from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

On October 23, 1998, Censtor Corporation ("Censtor") initiated an arbitration proceeding against the Company in California, alleging that it is owed royalties under a license agreement between Censtor and the Company. In response, the Company filed a complaint in federal court in California seeking a determination that the patents at issue are invalid. The parties have agreed to settle this dispute and are in the process of preparing and executing a settlement agreement, after which all related actions will be dismissed. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In June 2000 Discovision Associates ("Discovision") notified the Company in writing that it believes certain of the Company's hard disk drive products may infringe certain of Discovision's patents. Discovision has offered to provide the Company with a license under its patent portfolio. The Company is in discussion with Discovision regarding its claims.

There is no litigation pending. The Company does not believe that the outcome of this matter will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

On June 9, 2000 a suit was brought against the Company in California State Superior Court on behalf of a class of former employees of the Company who were terminated as a result of a reduction in force in December 1999. The complaint asserts claims for unpaid wages, fraud, breach of fiduciary duty, breach of contract, and unfair business practices. The Company has removed the suit to federal court in California on the ground that all of the claims are preempted by the Employee Retirement Income Security Act of 1974. The Company denies the material allegations of the complaint and intends to vigorously defend this action. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In the normal course of business, the Company receives and makes inquiries regarding possible intellectual property matters, including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to the Company. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of federal securities laws. The statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecasts," and the like. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. These statements appear in a number of places in this report and include statements regarding the intentions, plans, strategies, beliefs or current expectations of the Company with respect to, among other things:

- the financial prospects of the Company;
- the Company's financing plans;
- litigation and other contingencies potentially affecting the Company's financial position, operating results or liquidity;
- trends affecting the Company's financial condition or operating results;
- the Company's strategies for growth, operations, product development and commercialization; and
- conditions or trends in or factors affecting the computer, data storage, home entertainment or hard drive industry.

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. Readers are urged to carefully review the disclosures made by the Company concerning risks and other factors that may affect the Company's business and operating results, including those made under the captions "Risk factors related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly", in this report, as well as the Company's other reports filed with the Securities and Exchange Commission. 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.

Unless otherwise indicated, references herein to specific years and quarters are to the Company's fiscal years and fiscal quarters.

OVERVIEW

During 2000, the Company significantly reorganized its operations to improve the efficiency of its hard drive business and establish the framework for a new enterprise that leverages the Company's technological expertise in the storage industry into new business ventures and market areas.

The 2000 reorganization of its hard drive business included the following major restructuring actions: the transfer of all desktop hard drive production to one highly efficient manufacturing facility in Malaysia; the closure of the Company's Singapore manufacturing facilities; and the discontinuance of the Company's enterprise drive product line. The hard drive reorganization also included significant changes in the worldwide management structure and sales organization. Restructuring charges recorded during the six months ended December 31, 1999 for reorganization actions initiated during that period were $57.8 million.

The Company's new business ventures include Connex, Inc. ("Connex"), SageTree, Inc. ("SageTree") and Keen Personal Media, Inc. ("Keen PM"). Connex delivers enterprise-class storage functionality for the department and mid-sized business markets, including network attached storage and storage management software for storage area networks. SageTree designs and markets packaged analytical applications and related services for supply chain and product lifecycle intelligence. Keen PM provides interactive broadband software, services and hardware for television and Internet content management and television-based electronic commerce. These new businesses do not yet have significant revenue, but together with other ventures currently in process and new market applications for hard disk drives, they are ultimately expected to provide a diversified portfolio of products that will help to reduce the Company's dependence on the traditional desktop hard drive market.

RESULTS OF OPERATIONS

The Company's consolidated operating loss of $9.6 million for the three months ended December 29, 2000, includes $10.2 million of operating income from the hard drive business and $19.8 million of operating losses from the new business ventures. This compares to the consolidated operating loss of $88.4 million for the corresponding period of the prior year, which includes $81.6 million of operating loss from the hard drive business and $6.8 million of operating losses from the new business ventures. The consolidated operating loss of $52.8 million for the six months ended December 29, 2000, includes $16.8 million of operating losses from the hard drive business and $36.0 million of operating losses from the new business ventures. This compares to the consolidated operating loss of $280.1 million for the corresponding period of the prior year, which includes $266.9 million of operating losses from the hard drive business and $13.2 million of operating losses from the new business ventures.

Consolidated revenues were $530.7 million for the three months ended December 29, 2000, a decrease of 5%, or $29.5 million, from the three months ended December 31, 1999 and an increase of 21%, or $90.5 million, from the immediately preceding quarter. Revenues from new business ventures were not material for all periods presented. However, revenues for the three months ended December 29, 1999 included $42.9 million of revenue from enterprise drives, which were discontinued during the third quarter of 2000. Revenues for desktop drives only were $530.6 million for the three months ended December 29, 2000, an increase of $13.3 million from the corresponding period of the prior year and an increase of $90.8 million from the immediately preceding quarter. The increase in desktop drive revenues during the three months ended December 29, 2000 as compared to the corresponding period of the prior year resulted from an increase in unit shipments, partially offset by a decrease in average selling prices (ASP's). The increase in desktop drive revenues as compared to the immediately preceding quarter resulted from an increase in unit shipments and an increase in the ASP's due to an improved pricing environment and mix of product shipped.

Consolidated revenues were $970.9 million for the six months ended December 29, 2000, an increase of .4%, or $3.8 million, from the six months ended December 31, 1999. Revenues for the six months ended December 29, 1999 included $124.3 million of revenue from enterprise drives. Revenues for desktop drives only were $970.4 million for the six months ended December 29, 2000, an increase of $127.5 million from the corresponding period of the prior year. The increase in desktop drive revenues resulted from an increase in unit shipments as compared to the corresponding period of the prior year, which was adversely affected by the product recall (see below). The increase in unit shipments was partially offset by a decrease in ASP's.

During the three months ended October 2, 1999, the Company announced a recall of its 6.8GB per platter series of WD Caviar(R) desktop hard drives because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. As a result, revenues of approximately $100 million were reversed and the Caviar product line was shut down for approximately two weeks, eliminating approximately $70 million of forecasted revenue. In addition, charges totaling $37.7 million for estimated costs to recall and repair the affected drives were recorded to cost of revenues during the three months ended October 2, 1999.

The gross profit for the three months ended December 29, 2000 totaled $63.5 million, or 12% of revenue. This compares to a gross profit of $20.2 million, or 4% of revenue, for the three months ended December 31, 1999, and $25.7 million, or 6% of revenue, for the immediately preceding quarter. The increase in the gross profit over the corresponding period of the prior year was primarily the result of lower manufacturing costs due to 2000 expense reduction efforts, partially offset by lower ASP's. The increase in the gross profit over the immediately preceding quarter was the result of an increase in ASP's due to an improved pricing environment and mix of product shipped.

The gross profit for the six months ended December 29, 2000 totaled $89.2 million, or 9% of revenue. This compares to a negative gross profit of $45.1 million, or negative 5% of revenue, for the six months ended December 31, 1999. The gross profit for the corresponding period of the prior year included $37.7 million of special charges directly relating to the product recall that occurred during the three months ended October 2, 1999. Excluding the special charges, negative gross profit for the six months ended December 31, 1999 was $7.4 million, or negative 1% of revenue. The increase in gross profit over the six months ended December 31, 1999 (excluding special charges) was primarily the result of lower manufacturing costs due to 2000 expense reduction efforts and higher volume.

Research and development ("R&D") expense for the three months ended December 29, 2000 was $37.4 million, a decrease of $6.7 million from the three months ended December 31, 1999 and an increase of $2.4 million from the immediately preceding quarter. R&D expense for the six months ended December 29, 2000 was $72.3 million, a decrease of $21.9 million from the six months ended December 31, 1999. The decrease in R&D expense from the corresponding three and six-month periods of the prior year was primarily due to the Company's exit from the enterprise hard drive market and expense reduction efforts in its desktop hard drive

operations, partially offset by increased spending at the Company's developing new business ventures. The increase in R&D expense during the three months ended December 29, 2000 from the immediately preceding quarter was primarily due to increased spending on new venture development.

Selling, general and administrative ("SG&A") expense for the three months ended December 29, 2000 was $35.8 million, a decrease of $3.3 million from the three months ended December 31, 1999 and an increase of $1.9 million from the immediately preceding quarter. SG&A expense for the six months ended December 29, 2000 was $69.7 million, a decrease of $13.2 million from the six months ended December 31, 1999. The decrease in SG&A expense from the corresponding three and six-month periods of the prior year was primarily due to the Company's exit from the enterprise hard drive market and expense reduction efforts in its desktop hard drive operations. The decrease was partially offset by increased spending at the Company's developing new business ventures. The increase in SG&A expense from the immediately preceding quarter was primarily due to nonrecurring expenses incurred in connection with the relocation of the Company's corporate headquarters and increased spending on new venture development.

Net interest and other income for the three months ended December 29, 2000 was $.8 million, compared to net interest expense of $3.0 million for the three months ended December 31, 1999 and net interest expense of $1.6 million for the immediately preceding quarter. The increase in net interest and other income for the three months ended December 29, 2000 was primarily due to lower accrued interest expense on the Company's convertible debentures due to the debenture redemptions that occurred during 2000 and 2001. Net interest expense for the six months ended December 29, 2000 was $.8 million, compared to net interest expense of $8.4 million for the six months ended December 31, 1999. The decrease in net interest expense was due to lower accrued interest expense on the Company's convertible debentures due to the debenture redemptions, partially offset by a reduced amount of interest income on lower average cash and cash equivalent balances.

During the six months ended December 29, 2000, the Company issued 15.4 million shares of common stock in exchange for $286.9 million in face value of its convertible debentures (with a book value of $116.6 million). During the corresponding period of the prior year, the Company issued 26.7 million shares of common stock in exchange for $735.6 million in face value of its convertible debentures (with a book value of $284.1 million). These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors. As a result of the redemptions, the Company recognized extraordinary gains of $10.6 million and $76.3 million for the three months ended December 29, 2000 and December 31, 1999, respectively, and $21.8 million and $166.9 million for the six months ended December 29, 2000 and December 31, 1999, respectively.

The Company did not record an income tax benefit in any periods presented as no additional loss carrybacks were available and management deemed it "more likely than not" that the deferred tax benefits generated would not be realized.

LIQUIDITY AND CAPITAL RESOURCES

At December 29, 2000, the Company had cash and cash equivalents of $179.4 million as compared to $184.0 million at June 30, 2000. Net cash used for operations was $73.9 million during the six months ended December 29, 2000, as compared to $101.2 million during the six months ended December 31, 1999. The improvement in cash used in operations reflects a significant improvement in the Company's operating results, net of non-cash items, offset by a higher level of cash used to fund net operating asset growth. The improvement in operating results, net of non-cash items, of $180.3 million was due to significantly better performance by the Company's Hard Drive Solutions business group as a result of higher sales volume and improved cost management, the discontinuance in January 2000 of the Company's enterprise class hard drive product line and the inclusion in the prior year period of significant charges relating to the product recall. The improved Hard Drive Solutions operating results were offset somewhat by increased spending on new business ventures. Cash used to fund net operating asset growth increased by $153.0 million due primarily to the impact in the prior year of the product recall on net operating assets. Specifically, the product recall necessitated a sharp contraction in the Company's cash conversion cycle which represents the sum of the number of days sales outstanding (DSO) and days inventory outstanding (DIO) less days payable outstanding (DPO). As the following chart indicates, the Company's cash conversion cycle was reduced by seven days during the six months ended December 31, 1999, and increased by four days during the six months ended December 29, 2000:

	THREE-MONTH PERIOD ENDED			
	JULY 3, 1999	DEC. 31, 1999	JUNE 30, 2000	DEC. 29, 2000
Cash Conversion Cycle:				
Days Sales Outstanding	38	32	28	30
Days Inventory Outstanding	19	18	18	15
Days Payables Outstanding	(48)	(48)	(56)	(51)

9	2	(10)	(6)
===	===	===	===

The decrease in the cash conversion cycle from July 3, 1999 to December 31, 1999 was due primarily to a reduction in DSO's due in large part to a sustained improvement in the linearity of shipments. The increase in the cash conversion cycle from June 30, 2000 to December 29, 2000 is due primarily to a reduction in DPO's. The Company expects to maintain its cash conversion cycle between six and eight days negative.

Other uses of cash during the six months ended December 29, 2000 included net capital expenditures of $26.9 million, primarily to upgrade the Company's desktop hard drive production capabilities and for normal replacement of existing assets. Other sources of cash during the period included proceeds of $15.0 million received upon the sale of marketable equity securities, $72.7 million received upon issuance of 14.5 million shares of the Company's stock under the Company's equity facility, $3.5 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases, and $5.0 million received from a third-party loan to one of the Company's new business ventures.

During the six months ended December 31, 1999, other uses of cash included net capital expenditures of $13.8 million, repayment of bank debt of $33.4 million, and the purchase of investments of $2.2 million. Other sources of cash during that period included $37.0 million from sales of real property, $49.5 million received upon issuance of 11.2 million shares of the Company's stock under the Company's equity facility, and $1.6 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

During the six months ended December 29, 2000, the Company issued 15.4 million shares of common stock to redeem a portion of its convertible debentures with a book value of $116.6 million and an aggregate principal amount at maturity of $286.9 million. During the six months ended December 31, 1999, the Company issued 26.7 million shares of common stock to redeem a portion of its convertible debentures with a book value of $284.1 million, and an aggregate principal amount at maturity of $735.6 million. These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors. The redemptions resulted in extraordinary gains of $21.8 million and $166.9 million during the six months ended December 29, 2000 and December 31, 1999, respectively. As of December 29, 2000, the book value of the remaining outstanding Debentures was $113.2 million and the aggregate principal amount at maturity was $274.7 million.

The Company has a three-year Senior Credit Facility for its hard drive solutions division ("HDS"), which provides up to $125 million in revolving credit (subject to a borrowing base calculation) and is secured by HDS's accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of HDS, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. The Senior Credit Facility requires HDS to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the facility.

Under an existing shelf registration (the "equity facility"), the Company may issue shares of common stock to institutional investors for cash. Shares sold under the equity facility are at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25%. During the six months ended December 29, 2000, the Company issued 14.5 million shares of common stock under the equity facility for net cash proceeds of $72.7 million. During the corresponding period of the prior year, the Company issued 11.2 million shares of common stock for net cash proceeds of $49.5 million. As of December 29, 2000, the Company had $200.0 million remaining under the equity facility.

The Company expects to continue to incur operating losses in 2001. However, at December 29, 2000, the Company had a cash and cash equivalent balance of $179.4 million, working capital of $33.5 million and shareholders' equity of $15.7 million. The Company has achieved significant reductions in manufacturing labor and overhead and operating expenses resulting from the sale in late 1999 of the Company's media operations, the closure in 2000 of the Company's two Singapore based manufacturing facilities and its enterprise design center, and the reduction in worldwide headcount. In addition, the Company had the following additional sources of liquidity available:

- As of February 6, 2001, $200.0 million remaining available under the equity facility;

- As of February 6, 2001, a Senior Credit Facility providing up to $125 million in revolving credit (subject to a borrowing base calculation); and

- As of February 6, 2001 other equity investments that may be disposed of during the next twelve months, including 4.8 million shares of Komag common stock (of which 3.2 million shares have sale restrictions until October 8, 2001) and 1.3 million shares of Vixel common stock. The combined market value of the 4.8 million Komag shares that can be sold in the next twelve months and the 1.3 million shares of Vixel common stock is approximately $12.2 million as of February 6, 2001.

Based on the above factors, the Company believes its current cash and cash equivalent balances, its existing equity and credit facilities, and other liquidity sources currently available to it, will be sufficient to meet its working capital needs through 2001. There can be no assurance that the Senior Credit Facility or the equity facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the headings "Risk factors relating to Western Digital particularly" and "Risk factors related to the hard drive industry in which we operate".

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 was effective for all fiscal quarters for fiscal years beginning after June 15, 1999. In August 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133" ("SFAS 137"), which deferred the effective date of SFAS 133 to all fiscal quarters for fiscal years beginning after June 15, 2000. In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133". SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. The adoption of these statements during the six months ended December 29, 2000 did not result in a material impact on the Company's consolidated financial position, results of operations or liquidity, and the Company did not have a significant adjustment as a result of the transition to these statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 ("SAB101") "Revenue Recognition in Financial Statements". This Staff Accounting Bulletin summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company will be required to follow the guidance in SAB101 no later than its fourth quarter of 2001, with restatement of earlier quarters in 2001 required, if necessary. The SEC has recently issued further guidance with respect to adoption of specific issues addressed by SAB101. The Company is currently assessing the impact, if any, SAB101 may have on its consolidated financial position or results of operations.

In March 2000, the FASB issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25" ("FIN 44"). This Interpretation clarifies the definition of an employee for purposes of applying Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. This Interpretation was effective July 1, 2000, but certain conclusions in this Interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 during the six months ended December 29, 2000 did not result in a material impact on the Company's consolidated financial position, results of operations or liquidity.

RISK FACTORS RELATED TO THE HARD DRIVE INDUSTRY IN WHICH WE OPERATE

Our operating results depend on our being among the first-to-market and first-to-volume with our new products.

To achieve consistent success with computer manufacturer customers we must be an early provider of next generation hard drives featuring leading technology and high quality. If we fail to:

- consistently maintain or improve our time-to-market performance with our new products

- produce these products in sufficient volume within our rapid product cycle

- qualify these products with key customers on a timely basis by meeting our customers' performance and quality specifications, or

- achieve acceptable manufacturing yields and costs with these products

then our market share would be adversely affected, which would harm our operating results.

Short product life cycles make it difficult to recover the cost of development.

Over the past few years hard drive areal density (the gigabytes of storage per disk) has increased at a much more rapid pace than previously, and we expect this trend to continue. Higher areal densities mean that fewer heads and disks are required to achieve a given drive capacity. This has significantly shortened product life cycles, since each generation of drives is more cost effective than the previous one. Shorter product cycles make it more difficult to recover the cost of product development.

Short product life cycles force us to continually qualify new products with our customers.

Due to short product life cycles, we must regularly engage in new product qualification with our customers. To be considered for qualification we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, any failure or delay in the qualification process can result in our losing sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume computer manufacturers, most of which continue to consolidate their share of the PC market. These risks are magnified because we expect cost improvements and competitive pressures to result in declining sales and gross margins on our current generation products.

Our average selling prices are declining.

We expect that our average selling prices for hard disk drives will continue to decline. Rapid increases in areal density mean that the average drive we sell has fewer heads and disks, and is therefore lower cost. Because of the competitiveness of the hard drive industry, lower costs generally mean lower prices. This is true even for those products that are competitive and introduced into the market in a timely manner. Our average selling prices decline even further when competitors lower prices to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share.

Unexpected technology advances in the hard drive industry could harm our competitive position.

If one of our competitors were able to implement a significant advance in head or disk drive technology that enables a step-change increase in areal density allowing greater storage of data on a disk, it would harm our operating results.

Advances in magnetic, optical, semiconductor or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than our products. If these products prove to be superior in performance or cost per unit of capacity, we could be at a competitive disadvantage to the companies offering those products.

The hard drive industry is highly competitive and characterized by rapid shifts in market share among the major competitors.

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. For example, during 1998 and 1999, we lost significant share of the desktop market. During the first quarter of 2000, the Company lost market share as a result of a previously announced product recall; however, we recovered some market share during the remainder of 2000 and during the first half of 2001, but our share is still significantly below its 1997 level.

Our prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk drives.

Demand for our hard drives depends on the demand for computer systems manufactured by our customers and on storage upgrades to existing systems. The demand for computer systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market tends to experience periods of excess capacity, which typically lead to intense price competition. Recently several competitor manufacturers and industry analysts have forecasted softening PC demand in the U.S. If intense price competition occurs, as a result of slackening demand, we may be forced to lower prices sooner and more than expected and transition to new products sooner than expected.

Changes in the markets for hard drives require us to develop new products.

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems, especially those systems priced below $1,000. We were late to market with a value line hard drive to serve that market, and we lost market share. If we are not able to offer a competitively priced value line hard drive for the low-cost PC market our market share will likely fall, which could harm our operating results.

The PC market is fragmenting into a variety of computing devices and products. Some of these products, such as Internet appliances, may not contain a hard drive. On the other hand, many industry analysts expect, as do we, that as broadcasting and communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics and communication devices will converge, and hard drives will be found in many consumer products other than computers. If we are not successful in using our hard drive technology and expertise to develop new products for these emerging markets, it will likely harm our operating results.

We depend on our key personnel.

Our success depends upon the continued contributions of our key employees, many of whom would be extremely difficult to replace. Worldwide competition for skilled employees in the hard drive industry is intense. We have lost a number of experienced hard drive engineers over the past two years as a result of the loss of retention value of their employee stock options (because of the decrease in price of our common stock) and aggressive recruiting of our employees. If we are unable to retain our existing employees or hire and integrate new employees, our operating results would likely be harmed.

RISK FACTORS RELATING TO WESTERN DIGITAL PARTICULARLY

Loss of market share with a key customer could harm our operating results.

A majority of our revenue comes from a few customers. For example, during 2000, sales to our top 10 customers accounted for approximately 57% of revenues. These customers have a wide variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed. For example, this occurred early in the third quarter of 2000 in our enterprise hard drive market and is one of the factors which led to our decision to exit the enterprise hard drive market and close our Rochester, Minnesota facility.

Dependence on a limited number of qualified suppliers of components could lead to delays or increased costs.

Because we do not manufacture any of the components in our hard drives, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could harm us more severely than our competitors, some of whom manufacture certain of the components for their hard drives. A number of the components used by us are available from only a single or limited number of qualified outside suppliers. If a component is in short supply, or a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. This occurred in September 1999 when we had to shut down our Caviar product line production for approximately two weeks as a result of a faulty power driver chip which was sole-sourced from a third-party supplier.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying these components. As a result, we may have to pay significant cancellation charges to suppliers if we cancel orders, as we did in 1998 when we accelerated our transition to magnetoresistive recording head technology, and as we did in 2000 as a result of our decision to exit the enterprise hard drive market.

In April 1999, we entered into a three-year volume purchase agreement with Komag under which we buy a substantial portion of our media components from Komag. This strategic relationship has reduced our media component costs; however, it has increased our dependence on Komag as a supplier. Our future operating results will depend substantially on Komag's ability to timely qualify its media components in our new development programs and to supply us with these components in sufficient volume to meet our production requirements. Any disruption in Komag's ability to manufacture and supply us with media would likely harm our operating results.

To develop new products we must maintain effective partner relationships with our strategic component suppliers.

Under our "virtual vertical integration" business model, we do not manufacture any of the parts used in our hard drives. As a result, the success of our products depends on our ability to gain access to and integrate parts that are "best in class" from reliable component suppliers. To do so we must effectively manage our relationships with our strategic component suppliers. We must also effectively integrate different products from a variety of suppliers and manage difficult scheduling and delivery problems.

We have only one manufacturing facility, which subjects us to the risk of damage or loss of the facility.

Our volume manufacturing operations currently are based in one facility in Malaysia. A fire, flood, earthquake or other disaster or condition affecting our facility would almost certainly result in a loss of substantial sales and revenue and harm our operating results.

Manufacturing our products abroad subjects us to numerous risks.

We are subject to risks associated with our foreign manufacturing operations, including:

- obtaining requisite United States and foreign governmental permits and approvals

- currency exchange rate fluctuations or restrictions

- political instability and civil unrest

- transportation delays or higher freight rates

- labor problems

- trade restrictions or higher tariffs

- exchange, currency and tax controls and reallocations

- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

We have attempted to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward exchange contracts. However, those contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place, as occurred in Malaysia during the first quarter of 1999. As a result of the Malaysian currency controls, we are no longer hedging the Malaysian currency risk.

Our plan to broaden our business in data and content management, storage and communication takes us into new markets.

We have recently entered the storage subsystem market through our Connex subsidiary. In this market we are facing the challenges of building volume and market share in a market which is new to us but which has several established and well-funded competitors. There is already significant competition for skilled engineers, both in the hardware and software areas, in this market. Our success will depend on Connex's ability to develop, introduce and achieve market acceptance of new products, applications and product enhancements, and to attract and retain skilled engineers. Additionally, our competitors in this market have established intellectual property portfolios. Our success will also depend on our ability to license existing intellectual property or create new innovations. Moreover, our competitors' established intellectual property portfolios increase our risk of intellectual property litigation.

We are also developing storage devices for the emerging audio-visual market. We will be facing the challenge of developing products for a market that is still evolving and subject to rapid changes and shifting consumer preferences. There are several competitors which have also entered this emerging market, and there is no assurance that the market for digital storage devices for audio-visual content will materialize or support all of these competitors.

We have recently entered the data warehouse software and services market through our SageTree subsidiary and are considering other initiatives related to data and content management, storage and communication. In any of these initiatives we will be facing the challenge of developing products and services for markets that are still evolving and which have many current and potential competitors. If we are not successful in these new initiatives it will likely harm our operating results.

Our reliance on intellectual property and other proprietary information subjects us to the risk of significant litigation.

The hard drive industry has been characterized by significant litigation. This includes litigation relating to patent and other intellectual property rights, product liability claims and other types of litigation. We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If we conclude that a claim of infringement is valid, we may be required to obtain a license or cross-license or modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would likely increase our costs and harm our operating results.

Our reliance on intellectual property and other proprietary information subjects us to the risk that these key ingredients of our business could be copied by competitors.

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. Despite safeguards, to the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain necessary legal protection. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely upon employee, consultant and vendor non-disclosure agreements and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which might harm our operating results.

Inaccurate projections of demand for our product can cause large fluctuations in our quarterly results.

If we do not forecast total quarterly demand accurately, it can have a material adverse effect on our quarterly results. We typically book and ship a high percentage of our total quarterly sales in the third month of the quarter, which makes it is difficult for us to match our production plans to customer demands. In addition, our quarterly projections and results may be subject to significant fluctuations as a result of a number of other factors including:

- the timing of orders from and shipment of products to major customers
- our product mix
- changes in the prices of our products
- manufacturing delays or interruptions
- acceptance by customers of competing products in lieu of our products
- variations in the cost of components for our products

- o limited access to components that we obtain from a single or a limited number of suppliers, such as Komag

- o competition and consolidation in the data storage industry

- o seasonal and other fluctuations in demand for computers often due to technological advances.

Rapidly changing market conditions in the hard drive industry make it difficult to estimate actual results.

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting. The rapidly changing market conditions with which we deal means that actual results may differ significantly from our estimates and assumptions. Key estimates and assumptions for us include:

- o accruals for warranty against product defects

- o price protection adjustments on products sold to resellers and distributors

- o inventory adjustments for write-down of inventories to fair value

- o reserves for doubtful accounts

- o accruals for product returns.

The market price of our common stock is volatile.

The market price of our common stock has been, and may continue to be, extremely volatile. Factors such as the following may significantly affect the market price of our common stock:

- o actual or anticipated fluctuations in our operating results

- o announcements of technological innovations by us or our competitors which may decrease the volume and profitability of sales of our existing products and increase the risk of inventory obsolescence

- o new products introduced by us or our competitors

- o periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures

- o developments with respect to patents or proprietary rights

- o conditions and trends in the hard drive, data and content management, storage and communication industries

- o changes in financial estimates by securities analysts relating specifically to us or the hard drive industry in general.

In addition, the stock market in recent months has experienced extreme price and volume fluctuations that have particularly affected the stock price of many high technology companies. These fluctuations are often unrelated to the operating performance of the companies.

Securities class action lawsuits are often brought against companies after periods of volatility in the market price of their securities. A number of such suits have been filed against us in the past, and any of these litigation matters could result in substantial costs and a diversion of resources and management's attention.

We may be unable to raise future capital through debt or equity financing.

Due to our recent financial performance and the risks described in this Report, in the future we may be unable to maintain adequate financial resources for capital expenditures, working capital and research and development. Our prior borrowing agreement with our banks matured on March 31, 2000, and we have signed an agreement for a new credit facility for our HDS division. If we decide to increase or accelerate our capital expenditures or research and development efforts, or if results of operations do not meet our expectations, we could require additional debt or equity financing. However, we cannot ensure that additional financing will be available to us or available on favorable terms. An equity financing could also be dilutive to our existing stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DISCLOSURE ABOUT FOREIGN CURRENCY RISK

Although the majority of the Company's transactions are in U.S. Dollars, some transactions are based in various foreign currencies. From time to time, the Company purchases short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. A majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed twelve months. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transaction is consummated. The Company does not purchase short-term forward exchange contracts for trading purposes.

Historically, the Company has focused on hedging its foreign currency risk related to the Singapore Dollar, the British Pound and the Malaysian Ringgit. With the establishment of currency controls and the prohibition of purchases or sales of the Malaysian Ringgit by offshore companies, the Company discontinued hedging its Malaysian Ringgit currency risk in 1999. Future hedging of this currency will depend on currency conditions in Malaysia. As a result of the closure of the Company's Singapore operations in 2000, the Company has also discontinued its hedging program related to the Singapore Dollar.

As of December 29, 2000, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	DECEMBER 29, 2000		
	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	UNREALIZED LOSS
	(U.S. DOLLAR EQUIVALENT AMOUNTS)		
FOREIGN CURRENCY FORWARD CONTRACTS:			
British Pound Sterling...............	6.0	1.50	--

During the three and six months ended December 31, 1999 and December 29, 2000, total realized transaction and forward exchange contract currency gains and losses were not material to the consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates would materially affect the Company's consolidated financial statements.

DISCLOSURE ABOUT OTHER MARKET RISKS

Fixed Interest Rate Risk

At December 29, 2000, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately $60.5 million, compared to the related book value of $113.2 million. The convertible debentures will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008, or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. The payment on those dates, with the exception of a Fundamental Change, can be in cash, stock or any combination, at the Company's option.

The Company has various notes receivable from other companies. All of the notes carry a fixed rate of interest. Therefore, a significant change in interest rates would not cause these notes to impact the Company's consolidated financial statements.

Variable Interest Rate Risk

At the option of HDS, borrowings under the Senior Credit Facility would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. This is the only debt which does not have a fixed-rate of interest.

The Senior Credit Facility requires HDS to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the Senior Credit Facility.

Fair Value Risk

The Company owned approximately 5.9 million shares of Komag, Inc. common stock at December 29, 2000. The stock is restricted as to the percentage of total shares which can be sold in a given time period. The unrestricted portion of the total Komag shares acquired represents the shares which can be sold within one year. The Company determines, on a quarterly basis, the fair market value of the unrestricted Komag shares and records an unrealized gain or loss resulting from the difference in the fair market value of the unrestricted shares as of the previous quarter end and the fair market value of the unrestricted shares on the measurement date. As of December 29, 2000, a $12.5 million total accumulated unrealized loss had been recorded in accumulated other comprehensive income (loss). If the Company sells all or a portion of this stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. As of December 29, 2000, the quoted market value of the Company's Komag common stock holdings, without regard to discounts due to sales restrictions, was $3.9 million and the aggregate book value was $6.7 million. As a result of market conditions, as of February 6, 2001, the market value of the shares had increased to $8.7 million. Due to market fluctuations, a decline in the stock's fair market value could occur.

The Company owns approximately 1.3 million shares of Vixel common stock. As of December 29, 2000, the market value of the Vixel shares was $2.5 million. The Company determines, on a quarterly basis, the fair market value of the Vixel shares and records an unrealized gain or loss resulting from the difference in the fair market value of the shares as of the previous quarter end and the fair market value of the shares on the measurement date. As of December 29, 2000, a $2.5 million total accumulated unrealized gain had been recorded in accumulated other comprehensive income (loss). If the Company sells all or a portion of this common stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. As a result of market conditions, as of February 6, 2001, the market value of the shares had increased to $5.1 million. Due to market fluctuations, a decline in the stock's fair market value could occur.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following discussion contains forward-looking statements within the meaning of the federal securities laws. These statements relate to the Company's legal proceedings described below. Litigation is inherently uncertain and may result in adverse rulings or decisions. Additionally, the Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. In addition, the costs of defending such litigation, individually or in the aggregate, may be material, regardless of the outcome. Accordingly, actual results could differ materially from those projected in the forward-looking statements.

In 1992 Amstrad plc ("Amstrad") brought suit against the Company in California State Superior Court, County of Orange, alleging that disk drives supplied to Amstrad by the Company in 1988 and 1989 were defective and caused damages to Amstrad of not less than $186 million. The suit also sought punitive damages. The Company denied the material allegations of the complaint and filed cross-claims against Amstrad. The case was tried, and in June 1999 the jury returned a verdict in favor of Western Digital. Amstrad has appealed the judgment. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In 1994 Papst Licensing ("Papst") brought suit against the Company in federal court in California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchased from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

On October 23, 1998, Censtor Corporation ("Censtor") initiated an arbitration proceeding against the Company in California, alleging that it is owed royalties under a license agreement between Censtor and the Company. In response, the Company filed a complaint in federal court in California seeking a determination that the patents at issue are invalid. The parties have agreed to settle this dispute and are in the process of preparing and executing a settlement agreement, after which all related actions will be dismissed. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In June 2000 Discovision Associates ("Discovision") notified the Company in writing that it believes certain of the Company's hard disk drive products may infringe certain of Discovision's patents. Discovision has offered to provide the Company with a license under its patent portfolio. The Company is in discussion with Discovision regarding its claims. There is no litigation pending. The Company does not believe that the outcome of this matter will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

On June 9, 2000 a suit was brought against the Company in California State Superior Court on behalf of a class of former employees of the Company who were terminated as a result of a reduction in force in December 1999. The complaint asserts claims for unpaid wages, fraud, breach of fiduciary duty, breach of contract, and unfair business practices. The Company has removed the suit to federal court in California on the ground that all of the claims are preempted by the Employee Retirement Income Security Act of 1974. The Company denies the material allegations of the complaint and intends to vigorously defend this action. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In the normal course of business, the Company receives and makes inquiries regarding possible intellectual property matters, including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to the Company. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period from July 1, 2000 to December 29, 2000, the Company engaged in transactions pursuant to which it exchanged an aggregate principal amount at maturity of $286.9 million of the Company's Zero Coupon Convertible Subordinated Debentures due 2018, for an aggregate of 15,361,934 shares of the Company's common stock. These transactions were undertaken in reliance upon the exemption from the registration requirements of the Securities Act afforded by Section 3(a)(9) thereof, as exchanges of securities by the Company with its existing security holders. No commission or other remuneration was paid or given directly or indirectly for soliciting such exchanges. These exchanges were consummated in private, individually negotiated transactions with institutional investors.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The annual meeting of shareholders was held on November 30, 2000. The shareholders elected the following seven directors to hold office until the next annual meeting and until their successors are elected and qualified:

	Number of Votes	
	For	Withheld
Peter D. Behrendt	128,874,723	2,666,446
I. M. Booth	128,907,250	2,633,919
Henry T. DeNero	128,951,571	2,589,598
Matthew E. Massengill	125,360,745	6,180,424
Roger H. Moore	128,913,468	2,627,701
Thomas E. Pardun	128,764,267	2,776,902

In addition, the shareholders approved the following proposals:

	Number of Votes		
	For	Against	Abstentions
1. To approve the amendment and restatement of the Company's Non-Employee Director Plan authorizing an additional 1,000,000 shares.	118,169,436	12,303,607	730,973
2. To ratify the selection of KPMG LLP as independent accountants for the Company for the fiscal year ended June 29, 2001.	130,105,028	608,689	497,452

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

None

(b) REPORTS ON FORM 8-K:

On October 18, 2000, the Company filed a current report on Form 8-K to announce its retirement, in aggregate, of $286.9 million principal amount of convertible debentures in exchange for shares of its common stock.

On October 27, 2000, the Company filed a current report on Form 8-K to file its press release dated October 26, 2000, announcing its first quarter results.

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/ Teresa Hopp

Teresa Hopp
Senior Vice President
and Chief Financial Officer

Date: February 12, 2001