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 March 30, 2001.

OR

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___________ to ___________

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	33-0956711
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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

N/A

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Number of shares outstanding of Common Stock, as of April 27, 2001, is 177,225,315.

WESTERN DIGITAL CORPORATION
INDEX

	PAGE NO.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Statements of Operations - Three-Month Periods Ended March 31, 2000 and March 30, 2001	3
Condensed Consolidated Statements of Operations - Nine-Month Periods Ended March 31, 2000 and March 30, 2001	4
Condensed Consolidated Balance Sheets - June 30, 2000 and March 30, 2001	5
Condensed Consolidated Statements of Cash Flows - Nine-Month Periods Ended March 31, 2000 and March 30, 2001	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 2. Changes in Securities and Use of Proceeds	25
Item 6. Exhibits and Reports on Form 8-K	25
Signatures	26

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	
	MAR. 31, 2000	MAR. 30, 2001
Revenues, net	$ 516,587	$ 533,369
Costs and expenses:		
Cost of revenues	505,003	468,095
Research and development	33,770	35,554
Selling, general and administrative	33,970	33,190
Restructuring charges	28,002	--
Total costs and expenses	600,745	536,839
Operating loss	(84,158)	(3,470)
Net interest and other income	13,489	52
Loss before extraordinary item	(70,669)	(3,418)
Extraordinary gain from redemption of debentures	--	371
Net loss	$ (70,669)	$ (3,047)
Loss per common share:		
Before extraordinary item	$ (.53)	$ (.02)
Extraordinary item	--	.00
Basic and diluted	$ (.53)	$ (.02)
Common shares used in computing per share amounts:		
Basic and diluted	133,903	176,250

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)

	NINE-MONTH PERIOD ENDED	
	MAR. 31, 2000	MAR. 30, 2001
Revenues, net	$ 1,483,718	$ 1,504,311
Costs and expenses:		
Cost of revenues	1,517,235	1,349,797
Research and development	127,996	107,882
Selling, general and administrative	116,862	102,860
Restructuring charges	85,837	--
Total costs and expenses	1,847,930	1,560,539
Operating loss	(364,212)	(56,228)
Net interest and other income (expense)	5,132	(741)
Loss before extraordinary item	(359,080)	(56,969)
Extraordinary gain from redemption of debentures	166,899	22,190
Net loss	$ (192,181)	$ (34,779)
Loss per common share:		
Before extraordinary item	$ (3.07)	$ (.34)
Extraordinary item	1.43	.13
Basic and diluted	$ (1.64)	$ (.21)
Common shares used in computing per share amounts:		
Basic and diluted	116,983	165,156

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)

	JUN. 30, 2000	MAR. 30, 2001 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 184,021	$ 160,869
Accounts receivable, less allowance for doubtful accounts of $13,316 at June 30, 2000 and $14,343 at March 30, 2001	149,135	153,095
Inventories	84,546	65,258
Prepaid expenses and other current assets	33,693	18,054
Total current assets	451,395	397,276
Property and equipment at cost, net	98,952	106,795
Other assets, net	65,227	41,070
Total assets	$ 615,574	$ 545,141
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 266,841	$ 234,851
Accrued expenses	137,866	95,133
Accrued warranty	40,359	33,856
Total current liabilities	445,066	363,840
Other liabilities	44,846	41,556
Convertible debentures	225,496	112,611
Minority interest	10,000	8,998
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 183,532 at March 30, 2001	1,534	1,835
Additional paid-in capital	549,932	694,567
Accumulated deficit	(482,857)	(517,636)
Accumulated other comprehensive income (loss)	1,367	(9,447)
Treasury stock-common stock at cost; 9,773 shares at June 30, 2000 and 6,693 shares at March 30, 2001	(179,810)	(151,183)
Total shareholders' equity (deficiency)	(109,834)	18,136
Total liabilities and shareholders' equity (deficiency)	$ 615,574	$ 545,141

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)

	NINE-MONTH PERIOD ENDED	
	MAR. 31, 2000	MAR. 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(192,181)	$ (34,779)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-Cash Items:		
Depreciation and amortization	64,949	39,692
Non-cash interest expense	12,513	5,912
Non-cash portion of restructuring charges	56,301	--
Extraordinary gain on debenture redemptions	(166,899)	(22,190)
Investment gains	(14,767)	--
Changes in assets and liabilities:		
Accounts receivable	95,980	6,040
Inventories	45,885	16,288
Prepaid expenses and other assets	9,634	(3,228)
Accrued warranty	(825)	(12,577)
Accounts payable and accrued expenses	(30,182)	(71,723)
Other	(1,192)	(5,665)
Net cash used for operating activities	(120,784)	(82,230)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property and equipment	66,756	--
Capital expenditures, net	(17,101)	(40,002)
Proceeds from sales of marketable equity securities	--	14,979
Other	(2,200)	--
Net cash provided by (used for) investing activities	47,455	(25,023)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from ESPP shares issued and stock options exercised	5,468	6,427
Repayment of bank debt	(50,000)	--
Common stock issued for cash	93,801	72,674
Proceeds from subsidiary financing	--	5,000
Net cash provided by financing activities	49,269	84,101
Net decrease in cash and cash equivalents	(24,060)	(23,152)
Cash and cash equivalents, beginning of period	226,147	184,021
Cash and cash equivalents, end of period	$ 202,087	$ 160,869
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$ 4,307	$ 1,519
Cash paid during the period for interest	2,094	132

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.

On April 6, 2001, the Company established a holding company organizational structure, under which Western Digital Corporation operates as the parent company to its hard drive business, Western Digital Technologies ("WDT"), and other subsidiaries. This administrative and legal change had no material impact to the accounting and reporting structure of the Company or to the Company's results of operations or financial position.

2. Supplemental Financial Statement Data (in thousands)

	JUN. 30, 2000	MAR. 30, 2001
Inventories:		
Finished goods	$69,033	$46,210
Work in process	11,253	11,542
Raw materials and component parts	4,260	7,506
	$84,546	$65,258

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERIOD ENDED	
	MAR. 31, 2000	MAR. 30, 2001	MAR. 31, 2000	MAR. 30, 2001
Net Interest and Other Income (Expense):				
Interest income	$ 1,939	$ 1,986	$ 6,425	$ 5,934
Realized investment gains (losses)	14,767	--	14,767	(738)
Interest expense	(3,217)	(2,187)	(16,060)	(6,939)
Minority interest in losses of consolidated subsidiary	--	253	--	1,002
	$ 13,489	$ 52	$ 5,132	$ (741)

	NINE-MONTH PERIOD ENDED	
	MAR. 31, 2000	MAR. 30, 2001
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued for redemption of convertible debentures	$110,109	$ 94,122
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs	$277,008	$116,312

Settlement of accounts payable by transfer of cost method investments	$ 26,242	$ --

3. Loss per Share

As of March 31, 2000 and March 30, 2001, 21.3 and 23.7 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 March 31, 2000 and March 30, 2001, an additional 8.4 and 4.0 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.

4. Common Stock Transactions

During the nine months ended March 31, 2000, the Company issued approximately 1,236,000 shares of its common stock in connection with Employee Stock Purchase Plan ("ESPP") purchases and 210,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $5.5 million. During the nine months ended March 30, 2001, the Company issued approximately 1,199,000 shares of its common stock in connection with ESPP purchases and 631,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $6.4 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 nine months ended March 31, 2000, the Company issued 20.5 million shares of common stock under the equity facility for net cash proceeds of $93.8 million. During the nine months ended March 30, 2001, the Company issued 14.5 million shares of common stock under the equity facility for net cash proceeds of $72.7 million. As of March 30, 2001, the Company had $200.0 million remaining under the equity facility.

During the nine months ended March 31, 2000, the Company issued 26.7 million shares of common stock to redeem a portion of its 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures") with a book value of $284.1 million, and an aggregate principal amount at maturity of $735.6 million. During the nine months ended March 30, 2001, the Company issued 15.7 million shares of common stock to redeem a portion of the Debentures with a book value of $118.7 million and an aggregate principal amount at maturity of $291.9 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 $22.2 million during the nine months ended March 31, 2000 and March 30, 2001, respectively. As of March 30, 2001, the book value of the remaining outstanding Debentures was $112.6 million and the aggregate principal amount at maturity was $269.7 million. Between March 31 and May 11, 2001, the Company issued 0.3 million shares of common stock in exchange for Debentures with a book value of $1.6 million and an aggregate principal amount at maturity of $3.8 million. As of May 11, 2001, the aggregate principal amount at maturity of the remaining Debentures was $265.9 million.

5. Credit Facility

The Company has a three-year Senior Credit Facility for its hard drive business, WDT, which provides up to $125 million in revolving credit (subject to a borrowing base calculation), matures on September 20, 2003 and is secured by WDT's accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of WDT, 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 WDT 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 the nine months ended March 31, 2000, the Company sold its enterprise drive manufacturing facility in Tuas, Singapore for $11.0 million (for a gain of $3.1 million) and its Rochester, Minnesota enterprise research and development facility for $29.7 million (for a loss of $1.9 million). The net gain of $1.2 million from the sale of the facilities was included in net restructuring charges.

During December 2000, the Company relocated its corporate headquarters from Irvine, California to Lake Forest, California, signing a 10-year lease agreement for the Lake Forest facility. The lease for the Irvine facility expired in January 2001.

7. Restructuring Activities

During the nine months ended March 31, 2000, the Company initiated restructuring actions to improve operational efficiency and to shift its strategic focus and resources away from the enterprise storage market and into Internet-related data content management systems and management software. 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, closure of the Company's Singapore operations and closure of its Rochester, Minnesota enterprise hard drive design center. These actions resulted in a net reduction of worldwide headcount of approximately 2,000, of which approximately 540 were management, professional and administrative personnel and the remainder was manufacturing employees. Restructuring charges recorded in connection with these actions totaled $85.8 million during the nine months ended March 31, 2000, and consisted of severance and outplacement costs of $28.7 million, the write-off of manufacturing equipment and information systems assets of $56.3 million (taken out of service and held for disposal), including a loss recognized on the sale of the Rochester facility of $1.9 million, and net lease cancellation and other costs of $11.0 million. Reducing these charges was the favorable settlement of lease commitments in Singapore of $5.3 million, favorable settlement of 1999 restructuring accruals of $1.8 million and a gain realized on the sale of the Tuas facility of $3.1 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 nine months ended March 30, 2001, the Company paid approximately $2.8 million for severance and lease settlements, leaving an accrual balance of approximately $1.1 million as of March 30, 2001.

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 March 30, 2001 and a related accumulated unrealized loss of $10.9 million was included in accumulated other comprehensive income (loss). The 1.1 million shares, available for sale on October 8, 2002, do not yet qualify as marketable securities under SFAS 115 and are accounted for at historical cost, which equals the fair value of the securities at the date the shares were acquired. The aggregate book value of the total 5.9 million Komag shares was $8.3 million as of March 30, 2001, of which $4.8 million relates to the March 30, 2001 market value of the 4.8 million shares accounted for as SFAS 115 marketable securities and the remaining $3.5 million relates to the fair value of the 1.1 million in securities accounted for currently at historical cost. In the event the decline in market value of all of the Komag shares is ultimately judged to be other than temporary, the Company would account for the decline in value as a realized loss in the Company's results of operations.

As of March 30, 2001, 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 March 30, 2001 an unrealized gain of $1.4 million was included in accumulated other comprehensive income (loss). The aggregate book value of the shares was $1.4 million as of March 30, 2001, 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 nine months ended March 31, 2000 and March 30, 2001 were as follows (in millions):

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERIOD ENDED	
	MAR. 31, 2000	MAR. 30, 2001	MAR. 31, 2000	MAR. 30, 2001
Net loss	$(70.7)	$ (3.0)	$(192.2)	$(34.8)
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale investments, net	1.8	.6	27.4	(10.8)
Total comprehensive loss	$(68.9)	$ (2.4)	$(164.8)	$(45.6)

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 formed new business ventures in 1999, 2000 and 2001, which do not meet the separate disclosure requirements under SFAS 131. The Company's new business ventures include Connex, Inc. ("Connex"), SageTree, Inc. ("SageTree") Keen Personal Media, Inc. ("Keen PM") and SANavigator, Inc. ("SANavigator"). Connex, formed in 1999, designs network attached storage products that enable IT managers to quickly expand network storage. SageTree, formed in 2000, is a software company that designs and markets packaged analytical applications and related services for supply chain and product lifecycle intelligence. Keen PM, formed in 2000, provides interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce. SANavigator, a company formed from Connex in February 2001, develops and markets software that simplifies the central management of storage area networks. 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 WDT 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 WDT segment.

Segment information (in thousands):

	THREE-MONTH PERIOD ENDED MAR. 30, 2001			NINE-MONTH PERIOD ENDED MAR. 30, 2001		
	WDT	ALL OTHER	TOTAL	WDT	ALL OTHER	TOTAL
Revenues	$533,198	$ 171	$ 533,369	$ 1,503,574	$ 737	$ 1,504,311
Operating income (loss)	11,877	(15,347)	(3,470)	(4,964)	(51,264)	(56,228)
Income (loss) before extraordinary item	11,674	(15,092)	(3,418)	(6,790)	(50,179)	(56,969)
Total assets	528,103	17,038	545,141	528,103	17,038	545,141
Depreciation and amortization	11,835	1,070	12,905	36,558	3,134	39,692
Additions to property and equipment	12,718	389	13,107	38,537	1,465	40,002

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 executed a settlement agreement, and all related actions have been dismissed.

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 United States District Court, Central District of 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 nine months ended March 31, 2000 for reorganization actions initiated during that period were $85.8 million.

The Company's new business ventures include Connex, Inc. ("Connex"), SageTree, Inc. ("SageTree"), Keen Personal Media, Inc. ("Keen PM") and SANavigator, Inc. Connex designs network attached storage products that enable IT managers to quickly expand network storage. SageTree is a software company that designs and markets packaged analytical applications and related services for supply chain and product lifecycle intelligence. Keen PM provides interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce. SANavigator Inc., a company recently formed from Connex, develops and markets software that simplifies the central management of storage area networks. 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 $3.5 million for the three months ended March 30, 2001, includes $11.9 million of operating income from the hard drive business and $15.4 million of operating losses from the new business ventures. This compares to the consolidated operating loss of $84.2 million for the corresponding period of the prior year, which includes $73.8 million of operating loss from the hard drive business and $10.4 million of operating losses from the new business ventures. The consolidated operating loss of $56.2 million for the nine months ended March 30, 2001, includes $5.0 million of operating losses from the hard drive business and $51.2 million of operating losses from the new business ventures. This compares to the consolidated operating loss of $364.2 million for the corresponding period of the prior year, which includes $340.6 million of operating losses from the hard drive business and $23.6 million of operating losses from the new business ventures.

Consolidated revenues were $533.4 million for the three months ended March 30, 2001, an increase of 3%, or $16.8 million, from the three months ended March 31, 2000 and an increase of .5%, or $2.6 million, from the immediately preceding quarter. Revenues from new business ventures were not material for all periods presented. Revenues for the three months ended March 31, 2000 included $8.1 million from enterprise drives, which were discontinued during that quarter. Revenues for desktop drives only were $533.2 million for the three months ended March 30, 2001, an increase of $25.2 million from the corresponding period of the prior year and an increase of $2.6 million from the immediately preceding quarter. The increase in desktop drive revenues during the three months ended March 30, 2001 as compared to the corresponding period of the prior year and the immediately preceding quarter resulted from an increase in unit shipments, partially offset by a decrease in average selling prices (ASP's).

Consolidated revenues were $1,504.3 million for the nine months ended March 30, 2001, an increase of 1%, or $20.6 million, from the nine months ended March 31, 2000. Revenues for the nine months ended March 31, 2000 included $132.4 million of revenue from enterprise drives. Revenues for desktop drives only were $1,503.6 million for the nine months ended March 30, 2001, an increase of $152.7 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 March 30, 2001 totaled $65.3 million, or 12% of revenue. This compares to a gross profit of $11.6 million, or 2% of revenue, for the three months ended March 31, 2000, and $63.5 million, or 12% of revenue, for the immediately preceding quarter. The gross profit for the corresponding period of the prior year included special charges of $34.8 million directly relating to the exit from the enterprise hard drive market. Excluding the special charges, gross profit was $46.4 million, or 9% of revenue. 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 gross profit for the nine months ended March 30, 2001 totaled $154.5 million, or 10% of revenue. This compares to a gross loss of $33.5 million, or negative 2% of revenue, for the nine months ended March 31, 2000. The gross profit for the corresponding period of the prior year included special charges of $37.7 million directly relating to the product recall that occurred during the three months ended October 2, 1999 and special charges of $34.8 million directly relating to the exit from the enterprise hard drive market. Excluding the special charges, gross profit for the nine months ended March 31, 2000 was $39.0 million, or 3% of revenue. The increase in gross profit over the nine months ended March 31, 2000 (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 March 30, 2001 was $35.6 million, an increase of $1.8 million from the three months ended March 31, 2000 and a decrease of $1.8 million from the immediately preceding quarter. The increase in R&D expense over the corresponding three-month period of the prior year was due to increased spending on new venture development, partially offset by the Company's exit from the enterprise hard drive market and expense reduction efforts in its desktop hard drive operations. The decrease in R&D expense over the immediately preceding quarter was primarily due to nonrecurring expenses incurred during the three months ended December 29, 2000 in connection with the relocation of the Company's corporate headquarters and to a slight decrease in spending on new venture development. R&D expense for the nine months ended March 30, 2001 was $107.9 million, a decrease of $20.1 million from the nine months ended March 31, 2000. The decrease 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.

Selling, general and administrative ("SG&A") expense for the three months ended March 30, 2001 was $33.2 million, a decrease of $0.8 million from the three months ended March 31, 2000 and a decrease of $2.6 million from the immediately preceding quarter. SG&A expense for the nine months ended March 30, 2001 was $102.9 million, a decrease of $14.0 million from the nine months ended March 31, 2000. The decrease in SG&A expense from the corresponding three and nine-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 new business ventures. The decrease in SG&A expense from the immediately preceding quarter was primarily due to nonrecurring expenses incurred during the three months ended December 29, 2000 in connection with the relocation of the Company's corporate headquarters and to a decrease in spending on new venture development.

Net interest and other income for the three months ended March 30, 2001 was $0.1 million, compared to $13.5 million for the three months ended March 31, 2000 and $0.8 million for the immediately preceding quarter. The decrease in net interest and other income for the three months ended March 29, 2001 from the corresponding period of the prior year was primarily due to a $14.7 million investment gain during the three months ended March 31, 2000. This decrease in net interest and other income was partially offset by lower accrued interest expense on the Company's 5.25% zero coupon convertible subordinated debentures (the "Debentures") due to the Debenture redemptions that occurred during 2000 and 2001. Net interest expense for the nine months ended March 30, 2001 was $0.7 million, compared to net interest and other income of $5.1 million for the nine months ended March 31, 2000. The decrease to net interest expense during the nine months ended March 30, 2001 from net interest and other income during the corresponding nine-month period of the prior year was primarily due to the $14.7 million investment gain during 2000. This decrease in net interest and other income was partially offset by lower accrued interest expense due to the Debenture redemptions that occurred.

During the nine months ended March 30, 2001, the Company issued 15.7 million shares of common stock in exchange for $291.9 million in face value of the Debentures (with a book value of $118.7 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 the 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 $22.2 million and $166.9 million for the nine months ended March 30, 2001 and March 31, 2000, 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 March 30, 2001, the Company had cash and cash equivalents of $160.9 million as compared to $184.0 million at June 30, 2000. Net cash used for operations was $82.2 million during the nine months ended March 30, 2001, as compared to $120.8 million during the nine months ended March 31, 2000. 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 $228.7 million was due to significantly better performance by the Company's hard drive business, 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 operating results of the hard drive business were offset somewhat by increased spending on new business ventures. Cash used to fund net operating asset growth increased by $190.2 million due primarily to the impact in the prior year of the product recall on net operating assets. Specifically, the product recall caused 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 twelve days during the nine months ended March 31, 2000, and increased by three days during the nine months ended March 30, 2001:

	JUL. 3, 1999	MAR. 31, 2000	JUN. 30, 2000	MAR. 30, 2001
Cash Conversion Cycle:				
Days Sales Outstanding	38	31	28	26
Days Inventory Outstanding	19	18	18	13
Days Payables Outstanding	(48)	(52)	(56)	(46)
	9	(3)	(10)	(7)

The decrease in the cash conversion cycle from July 3, 1999 to March 31, 2000 was due primarily to a reduction in DSO's, due in large part to a sustained improvement in the linearity of shipments, and to an increase in DPO's. The increase in the cash conversion cycle from June 30, 2000 to March 30, 2001 is due primarily to a reduction in DPO's offset partially by a decrease in DSO's and DIO's, due to improved sales and production linearity. The Company expects to maintain its cash conversion cycle between six and eight days negative.

Other uses of cash during the nine months ended March 30, 2001 included net capital expenditures of $40.0 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, $6.4 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 nine months ended March 31, 2000, other uses of cash included net capital expenditures of $17.1 million, repayment of bank debt of $50.0 million, and the purchase of investments of $2.2 million. Other sources of cash during that period included $66.8 million from sales of real property, $93.8 million received upon issuance of 20.5 million shares of the Company's stock under the Company's equity facility, and $5.5 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

During the nine months ended March 30, 2001, the Company issued 15.7 million shares of common stock to redeem a portion of its convertible debentures with a book value of $118.7 million and an aggregate principal amount at maturity of $291.9 million. During the nine months ended March 31, 2000, 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 $22.2 million and $166.9 million during the nine months ended March 30, 2001 and March 31, 2000, respectively. As of March 30, 2001, the book value of the remaining outstanding Debentures was $112.6 million and the aggregate principal amount at maturity was $269.7 million. Between March 31 and May 11, 2001, the Company issued 0.3 million shares of common stock in exchange for Debentures with a book value of $1.6 million and an aggregate principal amount at maturity of $3.8 million. As of May 11, 2001, the aggregate principal amount at maturity of the remaining Debentures was $265.9 million.

The Company has a three-year Senior Credit Facility for its hard drive business, Western Digital Technologies ("WDT"), which provides up to $125 million in revolving credit (subject to a borrowing base calculation), matures on September 20, 2003 and is secured by WDT's accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of WDT, 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 WDT 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 nine months ended March 30, 2001, 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 20.5 million shares of common stock for net cash proceeds of $93.8 million. As of March 30, 2001, the Company had $200.0 million remaining under the equity facility.

The Company expects to continue to incur operating losses in 2001. However, at March 30, 2001, the Company had a cash and cash equivalent balance of $160.9 million, working capital of $33.4 million and shareholders' equity of $18.1 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 May 7, 2001, $200.0 million remaining available under the equity facility;

- As of May 7, 2001, a Senior Credit Facility providing up to $125 million in revolving credit (subject to a borrowing base calculation); and

- As of May 7, 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 $7.9 million as of May 7, 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 the foreseeable future. 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 nine months ended March 30, 2001 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 SAB101 will 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 nine months ended March 30, 2001 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. While we expect this trend to continue, the technical challenges of maintaining this pace are becoming more formidable, and the risk of not achieving the targets for each new generation of drives increases, which could adversely impact product manufacturing yields and schedules, among other impacts. 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.

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.

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.

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 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 have recently entered the market for storage resource management software through our SANavigator subsidiary, which was formed from within Connex. The success of SANavigator will depend on its ability to develop, introduce and achieve market acceptance of new products, applications and product versions, and to attract and retain skilled software engineers. SANavigator faces several competitors, and the market for its products is still evolving.

We are also developing storage devices and content management software for the emerging broadband television market through our Keen PM subsidiary. 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 television and other audio-visual content will materialize or support all of these competitors.

We have 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:

o the timing of orders from and shipment of products to major customers

o our product mix

o 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

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

- competition and consolidation in the data storage industry

- 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:

- accruals for warranty against product defects

- price protection adjustments on products sold to resellers and distributors

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

- reserves for doubtful accounts

- 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:

- actual or anticipated fluctuations in our operating results

- 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

- new products introduced by us or our competitors

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

- developments with respect to patents or proprietary rights

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

- 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. We have a credit facility for our WDT subsidiary, which matures on September 20, 2003. 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 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 March 30, 2001, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	MARCH 30, 2001		
	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	UNREALIZED GAIN (LOSS)
	(U.S. DOLLAR EQUIVALENT AMOUNTS)		
FOREIGN CURRENCY FORWARD CONTRACTS:			
British Pound Sterling.................	2.8	1.42	--

During the three and nine months ended March 31, 2000 and March 30, 2001, 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 March 30, 2001, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately $80.9 million, compared to the related book value of $112.6 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 WDT, 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 WDT 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 March 30, 2001. 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 March 30, 2001, a $10.9 million total accumulated unrealized loss had been recorded in accumulated other comprehensive income (loss). The restricted portion of the Komag shares is accounted for at historical cost. If the Company sells all or a portion of this stock or if the decline in value is judged to be other than temporary, any unrealized gain or loss would be realized in the Company's results of operations. As of March 30, 2001, the quoted market value of the Company's Komag common stock holdings, without regard to discounts due to sales restrictions, was $5.9 million and the aggregate book value was $8.3 million. As a result of market conditions, as of May 7, 2001, the market value of the shares had decreased to $4.4 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 March 30, 2001, the market value of the Vixel shares was $1.4 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 March 30, 2001, a $1.4 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 May 7, 2001, the market value of the shares had increased to $4.3 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 executed a settlement agreement, and all related actions have been dismissed.

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 United States District Court, Central District of 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 three months ended March 30, 2001, the Company engaged in transactions pursuant to which it exchanged an aggregate principal amount at maturity of $5.0 million of the Company's Zero Coupon Convertible Subordinated Debentures due 2018, for an aggregate of 340,000 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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

10.12 Western Digital Corporation Change of Control Severance Plan

- ----------

(b) REPORTS ON FORM 8-K:

On January 26, 2001, the Company filed a current report on Form 8-K to file its press release dated January 25, 2001, announcing its second quarter results.

On February 5, 2001, the Company filed a current report on Form 8-K to file an investor presentation of the Company dated January 31, 2001 - February 2, 2001.

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 A. Hopp

Teresa A. Hopp
Senior Vice President
and Chief Financial Officer

Date: May 12, 2001

EXHIBIT INDEX

Exhibit Number	Description
10.12	Western Digital Corporation Change of Control Severance Plan

EXHIBIT 10.12

WESTERN DIGITAL CORPORATION

CHANGE OF CONTROL SEVERANCE PLAN

1. Purpose of Plan. The Executives have made and are expected to make major contributions to the profitability, growth and financial strength of the Company and its affiliates. In addition, the Company considers the continued availability of the Executives' services, managerial skills and business experience to be in the best interest of the Company and its stockholders and desires to assure the continued services of the Executives on behalf of the Company and/or its affiliates without the distraction of the Executives occasioned by the possibility of an abrupt change in control of the Company.

2. Definitions. Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary:

2.01 "Board" shall mean the Board of Directors of the Company.

2.02 "Cause" shall mean the occurrence or existence of any of the following with respect to the Executive, as determined by a majority of the disinterested directors of the Board or the Committee:

(a) the Executives' conviction by, or entry of a plea of guilty or nolo contendere in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;

(b) whether prior or subsequent to the date hereof, the Executives' willful engaging in dishonest or fraudulent actions or omissions which results directly or indirectly in any demonstrable material financial or economic harm to the Company or any of its subsidiaries or affiliates;

(c) the Executives' failure or refusal to perform his or her duties as reasonably required by the Employer, provided that Executive shall have first received written notice from the Employer stating with specificity the nature of such failure or refusal and affording the Executive at least five (5) days to correct the act or omission complained of;

(d) gross negligence, insubordination, material violation by the Executive of any duty of loyalty to the Company or any subsidiary or affiliate of the Company, or any other material misconduct on the part of the Executive, provided that the Executive shall have first received written notice from the Company stating with specificity the nature of such action or violation and affording the Executive at least five (5) days to correct such action or violation;

(e) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Board's reasonable determination renders the Executive unfit to serve in his or her capacity as an officer or employee of the Company or any of its subsidiaries or affiliates;

(f) sexual harassment by the Executive that has been reasonably substantiated and investigated;

(g) involvement in activities representing conflicts of interest with the Company or any of its subsidiaries or affiliates;

(h) improper disclosure of confidential information;

(i) conduct endangering, or likely to endanger, the health or safety of another employee;

(j) falsifying or misrepresenting information on the records of the Company or any of its subsidiaries or affiliates; or

(k) the Executive's physical destruction or theft of substantial property or assets of the Company or any of its subsidiaries or affiliates.

2.03 "Change in Control" shall mean an occurrence of any of the following events, unless the Board shall provide otherwise:

(a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), alone or together with its affiliates and associates, including any group of persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act (other than the Company or any subsidiary thereof or any employee benefit plan of the Company or any subsidiary thereof, or any underwriter in connection with a firm commitment public offering of the Company's capital stock), becomes the "beneficial owner" (as such term is defined in Rule 13d-3 of the Exchange Act, except that a person shall also be deemed the beneficial owner of all securities which such person may have a right to acquire, whether or not such right is presently exercisable) of thirty-three and one third percent or more of (i) the then outstanding shares of the Company's common stock or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then outstanding voting securities;

(b) a change, during any period of two consecutive years, of a majority of the Board as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the effective date of this Plan and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);

(c) consummation of any merger, consolidation, reorganization or other extraordinary transaction (or series of related transactions) involving the Company which results in the stockholders of the Company having power to vote in the ordinary election of directors immediately prior to such transaction (or series of related transactions) failing to beneficially own at least a majority of the securities of the Company (or any successor or other person which issues securities in such transaction or transactions) having the power to vote in the ordinary election of directors which are outstanding after giving effect to such transaction (or series of related transactions); or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or the sale of all or substantially all of the assets of the Company.

2.04 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.05 "Committee" shall mean the Compensation Committee of the Board.

2.06 "Company" shall mean Western Digital Corporation, a Delaware corporation, and, as permitted by Section 12.03(b), its successors and assigns.

2.07 "Date of Termination" following a Change in Control shall mean the dates, as the case may be, for the following events: (a) if the Executive's employment is terminated by death, the date of death, (b) if the Executive's employment is terminated due to a Permanent Disability, thirty (30) days after the Notice of Termination is given (provided that the Executive shall not have returned to the performance of his or her duties on a full-time basis during such period), (c) if the Executive's employment is terminated pursuant to a termination for Cause, the date specified in the Notice of Termination, and (d) if the Executive's employment is terminated for any other reason, fifteen (15) days after delivery of the Notice of Termination unless otherwise agreed by the Executive and the Company.

2.08 "Disability" shall mean that the Executive is unable, by reason of injury, illness or other physical or mental impairment, to perform each and every task of the position for which the Executive is employed, which inability is certified by a licensed physician reasonably selected by the Employer.

2.09 "Effective Date" shall mean March 29, 2001.

2.10 "Employer" shall mean the Company or its subsidiary employing Executive, provided however, that nothing contained herein shall prohibit the Company or another of its subsidiaries fulfilling any obligation of the employing entity to the Executive and for such purposes will be deemed the act of the Employer.

2.11 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.12 "Executive" shall mean any Tier 1 Executive or Tier 2 Executive.

2.13 "Good Reason" shall mean any of the following without the Executive's express written onsent:

(a) (i) the assignment to the Executive of any duties materially and adversely inconsistent with the Executive's positions, duties, responsibilities and status with the Employer immediately prior to a Change in Control or with significantly less authority than immediately prior to the Change in Control;

(ii) a significant adverse alteration in the nature of the Executive's reporting responsibilities, titles, or offices with the Employer from those in effect immediately prior to a Change in Control, or

(iii) any removal of the Executive from, or any failure to reelect the Executive to, any such positions, except in connection with a termination of the employment of the Executive for Cause, Permanent Disability, or as a result of the Executive's death or by the Executive other than for Good Reason;

(b) a reduction by the Employer in the Executive's base salary in effect immediately prior to a Change in Control;

(c) failure by the Employer to continue in effect any compensation plan, bonus or incentive plan, stock purchase plan, stock option plan, life insurance plan, health plan, disability plan or other benefit plan or arrangement in which the Executive is participating at the time of a Change in Control unless the Employer substitutes a plan or arrangement which, when viewed in the totality of the benefits provided, does not adversely impact the Executive in a material respect, or the taking of any action by the Employer which would adversely affect, in a material respect, Executive's participation in or materially reduce Executive's benefits under any of such plans;

(d) any material breach by the Company or the Employer of any provision of this Plan;

(e) following a Change in Control, the Executive is excluded (without substitution of a substantially equivalent plan) from participation in any incentive, compensation, stock option, health, dental, insurance, pension or other benefit plan generally made available to persons at Executive's level of responsibility in the Company or the Employer;

(f) the requirement by the Employer that the Executive's principal place of employment be relocated more than fifty (50) miles from his or her place of employment prior to a Change in Control, or that the Executive must travel on the Employer's business to an extent materially greater than the Executive's customary business travel obligations prior to a Change in Control; or

(g) the Company's failure to obtain a satisfactory agreement from any successor to assume and agree to perform the Company's obligations under this Plan, as contemplated in Section 12.03(b) hereof.

2.14 "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

2.15 "Permanent Disability" shall mean if, as a result of the Executive's Disability, the Executive shall have been absent from his or her duties with the Employer on a full-time basis for six (6) months of any consecutive eight (8) month period.

2.16 "Termination of Employment" shall mean the time when the employee-employer relationship between the Executive and the Employer is terminated for any reason, voluntarily or involuntarily, with or without Cause, including, without limitation, a termination by reason of resignation, discharge (with or without Cause), Permanent Disability, death or retirement, but excluding terminations where there is a simultaneous re-employment of the Executive by the Company or a subsidiary of the Company.

2.17 "Tier 1 Executive" shall mean those executive officers of the Company who are subject to Section 16 of the Exchange Act.

2.18 "Tier 2 Executive" shall mean those officers of the Company or any of its subsidiaries who are designated as such by the Board or the Committee.

3. Term. This Plan shall be effective until the fifth anniversary of the Effective Date and may be extended by the Board until no later than the tenth anniversary of the Effective Date.

4. Compensation Upon A Change In Control.

4.01 Salary. Commencing on the date a Change in Control shall occur, the Employer shall pay a salary to the Executive at an annual rate at least equal to the annual salary payable to the Executive immediately prior to such date. The salary, as it may be changed from time to time by mutual agreement between the Executive and the Employer, shall be paid in equal installments on each regular payroll payment date after the date of this Plan and shall be subject to regular withholding for federal, state and local taxes in accordance with law.

4.02 Other Benefits.

(a) Commencing on the date a Change in Control shall occur, the Executive shall be entitled to participate in and to receive benefits under those employee benefit plans or arrangements (including, without limitation, any pension or welfare plan, life, health, hospitalization and other forms of insurance and all other "fringe" benefits or perquisites) made available to executives of the Company or the Employer, or any successor thereto. The Executive's level of participation in, or entitlements under, any such employee benefit plan or arrangement of any successor to the Company shall be calculated as if the Executive had been an employee of such successor to the Company from the date of the Executive's employment by the Employer.

(b) Commencing on the date a Change in Control shall occur, the Executive shall be entitled to reimbursement, in accordance with the usual practices of the Employer, for all reasonable travel and other business expenses incurred by the Executive in the performance of his or her duties on behalf of the Employer.

5. Termination of Employment of Executive.

5.01 Payment of Severance Benefits Upon Change of Control. In the event of a Change in Control of the Company, Executive shall be entitled to the severance benefits set forth in Section 6, but only if during the term of this Plan:

(a) the Executive's employment by the Employer is terminated by the Employer without Cause within one (1) year after the date of the Change in Control;

(b) the Executive terminates his or her employment with the Employer for Good Reason within one (1) year after the date of the Change in Control and complies with the procedures set forth in Section 5.02;

(c) the Executive's employment by the Employer is terminated by the Employer prior to the Change in Control and such termination arose in connection with or in anticipation of the Change in Control (for purposes of this Plan, meaning that at the time of such termination the Company had entered into an agreement, the consummation of which would result in a Change in Control, or any person had publicly announced its intent to take or consider actions that would constitute a Change in Control, and in each case such Change in Control is consummated, or the Board adopts a resolution to the effect that a potential Change in Control for purposes of this Plan has occurred); or

(d) the Executive terminates his or her employment with the Employer for Good Reason prior to the Change in Control, the event constituting Good Reason arose in connection with or in anticipation of the Change in Control and the Executive complies with the procedures set forth in Section 5.02.

5.02 Good Reason.

(a) Notwithstanding anything contained in any employment agreement between the Executive and the Employer to the contrary, during the term of this Plan the Executive may terminate his or her employment with the Employer for Good Reason as set forth in Section 5.01(b) or (d) and be entitled to the benefits set forth in Section 6, provided that the Executive gives written notice to the Company and the Employer of his or her election to terminate his or her employment for such reason within 180 days after the time he or she becomes aware of the existence of facts or circumstances constituting Good Reason or, if later, within ten (10) days of the time the claim is resolved pursuant to Section 5.02(b).

(b) If the Executive believes that he or she is entitled to terminate his or her employment with the Employer for Good Reason, he or she may apply in writing to the Company for confirmation of such entitlement prior to the Executive's actual separation from employment, by following the claims procedure set forth in Section 9. The submission of such a request by the Executive shall not constitute "Cause" for the Company to terminate the Executive's employment and the Executive shall continue to receive all compensation and benefits he or she was receiving at the time of such submission throughout the resolution of the matter pursuant to the procedures set forth in Section 9. If the Executive's request for a termination of employment for Good Reason is denied under both the request and appeal procedures set forth in Sections 9.02 and 9.03, then the parties shall use their best efforts to resolve the claim within ninety (90) days after the claim is submitted to binding arbitration pursuant to Section 9.04.

5.03 Permanent Disability. In the event of a Permanent Disability of the Executive, the Executive shall be entitled to no further benefits under this Plan, provided that the Employer shall have provided the Executive a Notice of Termination and the Executive shall not have returned to the full-time performance of the Executive's duties within thirty (30) days of such Notice of Termination.

5.04 Cause. The Employer may terminate the employment of the Executive for Cause. The Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a Notice of Termination and a certified copy of a resolution of the Board adopted by the affirmative vote of not less than a majority of the entire membership of the Board (other than the Executive if he or she is a member of the Board at such time) at a meeting called and held for that purpose and at which the Executive was given an opportunity to be heard, finding that the Executive was guilty of conduct constituting Cause based on reasonable evidence, specifying the particulars thereof in detail. For purposes of this Section 5.04, no act or failure to act on the Executive's part shall be considered "willful" unless done or omitted to be done by him or her not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company and the Employer.

5.05 Notice of Termination. Any termination of the Executive's employment by the Employer or by the Executive (other than termination based on the Executive's death) following a Change in Control shall be communicated by the terminating party in a Notice of Termination to the other party hereto.

6. Compensation and Benefits Upon Termination of Employment.

6.01 Severance Benefits. If the Executive shall be terminated from employment with the Employer or shall terminate his or her employment with the Employer as described in Section 5.01, then the Executive shall be entitled to receive the following:

(a) In lieu of any further payments to the Executive except as expressly contemplated hereunder, the Employer shall pay as severance pay to the Executive an amount equal to two times (in the case of a Tier 1 Executive) or one times (in the case of a Tier 2 Executive) the Executive's annual base compensation plus target bonus as in effect immediately prior to the Change in Control or as in effect on the date of the Notice of Termination, whichever is higher. Such cash payment shall be payable in a single sum, within ten (10) business days following the Executive's Date of Termination.

(b) Any non-vested stock options granted to the Executive by the Company shall become 100% vested and may be exercised by the Executive for the longer of (i) ninety (90) days after the Date of Termination or (ii) the period specified in the plan or agreement governing such options.

(c) For a period of twenty-four months (in the case of a Tier 1 Executive) or twelve months (in the case of a Tier 2 Executive) following the Executive's Date of Termination (the "payment period"), the Executive shall be entitled to the continuation of the same or equivalent life, health, hospitalization, dental and disability insurance coverage and other employee insurance or welfare benefits (including equivalent coverage for his or her spouse and dependent children) and car allowances as he or she was receiving immediately prior to the Change in Control. In the event that Executive is ineligible under the terms of such insurance to continue to be so covered, the Employer shall provide Executive with a lump sum payment equal to the cost of obtaining such coverage for the payment period. If the Executive, prior to a Change in Control, was receiving any cash-in-lieu payments designed to enable the Executive to obtain insurance coverage of his or her choosing, the Employer shall, in addition to any other benefits to be provided under this Section 6.01(d), provide Executive with a lump-sum payment equal to the amount of such in-lieu payments that the Executive would have been entitled to receive over the payment period. The benefits to be provided under this Section 6.01(d) shall be reduced to the extent of the receipt of substantially equivalent coverage by the Executive from any successor employer.

(d) All awards under the Company's Executive Retention Plan adopted in July, 1998 or any similar plan shall accelerate and be payable fifteen (15) days after the Date of Termination.

(e) If any payments received by a Tier 1 Executive pursuant to this Plan will be subject to the excise tax imposed by Section 4999 of the Code, or any successor or similar provision of the Code or any comparable provision of state law (the "Excise Tax"), the Employer shall pay to the Tier 1 Executive additional compensation such that the net amount received by the Tier 1 Executive after deduction of any Excise Tax (and taking into account any federal, state and local income taxes payable by the Tier 1 Executive as a result of the receipt of such gross-up compensation), shall be equal to the total payments he or she would have received had no such Excise Tax (or any interest or penalties thereon arising primarily from the acts or omissions of the Employer) been paid or incurred. The Employer shall pay such additional compensation at the time when the Employer withholds such Excise Tax from any payments to the Tier 1 Executive. The calculation of the tax gross-up payment shall be approved by the Company's independent certified public accounting firm and the Tier 1 Executive's designated financial advisor.

(f) In the event that the amount of payments or other benefits payable to a Tier 2 Executive under this Plan, together with any payments or benefits payable under any other plan, program, arrangement or agreement maintained by the Employer or one of its affiliates, would constitute an 'excess parachute payment' (within the meaning of Section 280G of the Code), the payments under this Plan shall be reduced (by the minimum possible amounts) until no amount payable to the Tier 2 Executive under this Plan constitutes an 'excess parachute payment' (within the meaning of Section 280G of the Code); provided, however, that no such reduction shall be made if the net after-tax payment (after taking into account Federal, state, local or other income and excise taxes) to which the Tier 2 Executive would otherwise be entitled without such reduction would be greater than the net after-tax payment (after taking into account Federal, state, local or other income and excise taxes) to the Tier 2 Executive resulting from the receipt of such payments with such reduction. If, as a result of subsequent events or conditions (including a subsequent payment or absence of a subsequent payment under this Plan or other plans, programs, arrangements or agreements maintained by the Employer or one of its affiliates), it is determined that payments hereunder have been reduced by more than the minimum amount required under this Section 6.01(f), then an additional payment shall be promptly made to the Tier 2 Executive in an amount equal to the excess reduction. All determinations required to be made under this Section 6.01(f), including whether a payment would result in an 'excess parachute payment' and the assumptions to be utilized in arriving at such determination, shall be made and approved by the Company's independent certified public accounting firm and the Tier 2 Executive's designated financial advisor.

6.02 Accrued Benefits. Upon termination of the employment of Executive for any reason, any accumulated but unused vacation shall be paid through the Date of Termination. Upon termination of the employment of Executive as set forth in Section 5.01, any accrued but unpaid bonus shall be paid through the Date of Termination. Unless otherwise specifically provided in this Plan, any payments or benefits payable to the Executive hereunder, including without limitation any bonus, in respect of any calendar year during which the Executive is employed by the Employer for less than the entire such year shall be prorated in accordance with the number of days in such calendar year during which he or she is so employed.

7. No Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for by this Plan by seeking employment or otherwise, nor shall the amount of any cash payments or benefits provided under this Plan be reduced by any compensation or benefits earned by the Executive after his or her Date of Termination (except as provided in the last sentence of Section 6.01(d) above). Notwithstanding the foregoing, if the Executive is entitled, by operation of any applicable law, to unemployment compensation benefits or benefits under the Worker Adjustment and Retraining Act of 1988 (known as the "WARN" Act) in connection with the termination of his or her employment in addition to amounts required to be paid to him or her under this Plan, then to the extent permitted by applicable statutory law governing severance payments or notice of termination of employment, the Company shall be entitled to offset the amounts payable hereunder by the amounts of any such statutorily mandated payments.

8. Limitation on Rights.

8.01 No Employment Contract. This Plan shall not be deemed to create a contract of employment between the Employer and the Executive and shall create no right in the Executive to continue in the Employer's employment for any specific period of time, or to create any other rights in the Executive or obligations on the part of the Company or its subsidiaries, except as set forth herein. Except as set forth herein, this Plan shall not restrict the right of the Employer to terminate the employment of Executive, or restrict the right of the Executive to terminate his or her employment.

8.02 No Other Exclusions. This Plan shall not be construed to exclude the Executive from participation in any other compensation or benefit programs in which he or she is specifically eligible to participate either prior to or following the Effective Date of this Plan, or any such programs that generally are available to other executive personnel of the Company, nor shall it affect the kind and amount of other compensation to which the Executive is entitled.

9. Administrator and Claims Procedure.

9.01 Administrator. Except as set forth herein, the administrator (the "Administrator") for purposes of this Plan shall be the Company. The Company shall have the right to designate one or more of the Company's or the Employer's employees as the Administrator at any time. The Company shall give the Executive written notice of any change in the Administrator, or in the address or telephone number of the same.

9.02 Claims Procedure. The Executive, or other person claiming through the Executive, must file a written claim for benefits with the Administrator as a prerequisite to the payment of benefits under this Plan. The Administrator shall make all determinations as to the right of any person to receive benefits under Sections 9.02 and 9.03. The decision by the Administrator of a claim for benefits by the Executive, his or her heirs or personal representative (the "claimant") shall be stated in writing by the Administrator and delivered or mailed to the claimant with thirty (30) days after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial thirty-day period. In no event shall such extension exceed a period of thirty (30) days from the end of the initial period. Any notice of denial shall set forth the specific reasons for the denial, specific reference to pertinent provisions of this Plan upon which the denial is based, a description of any additional material or information necessary for the claimant to perfect his or her claim, with an explanation of why such material or information is necessary, and a description of claim review procedures, written to the best of the Administrator's ability in a manner that may be understood without legal or actuarial counsel.

9.03 Appeals. A claimant whose claim for benefits has been wholly or partially denied by the Administrator may request, within sixty (60) days following the date of such denial, in a writing addressed to the Administrator, a review of such denial. The claimant shall be entitled to submit written comments, documents, records and other information he or she shall consider relevant to a determination of his or her claim, and he or she may include a request for a hearing in person before the Administrator. Prior to submitting his or her request, the claimant shall be entitled to review such documents, records, and other information as the Administrator shall reasonably agree are pertinent to his or her claim. The claimant may, at all stages of the review, be represented by counsel, legal or otherwise, of his or her choice, provided that the fees and expenses of such counsel shall be borne by the claimant, unless the claimant is successful, in which case, such costs shall be borne by the Company. The review of the claim shall take into account all information submitted by claimant relating to the claim, without regard to whether such information was submitted in the initial benefit determination. All requests for review shall be promptly resolved. The Administrator's decision with respect to any such review shall be set forth in writing and shall be mailed to the claimant not later than sixty (60) days following receipt by the Administrator of the claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Administrator's decision shall be so mailed not later than one hundred and twenty (120) days after receipt of such request or, if later, ten (10) days after the hearing. The time and place of any hearing shall be as mutually agreed by the parties. If the claimant is dissatisfied with the Administrator's decision on review, the claimant may then either, at his or her option, invoke the arbitration procedures described in Section 9.04 or pursue a remedy in a judicial forum. No legal action may be commenced prior to the completion of the claims and appeals procedures described in the foregoing provisions of Section 9.02 and 9.03. Notwithstanding the foregoing, no legal action may be commenced after ninety (90) days after the date upon which the Administrator's written decision on appeal was sent to claimant.

9.04 Arbitration. A claimant who has followed the procedure in Sections 9.02 and 9.03, but who has not obtained full relief on his or her claim for benefits, may, within sixty (60) days following his or her receipt of the Administrator's written decision on review pursuant to Section 9.03, apply in writing to the Administrator for expedited and binding arbitration of his or her claim before an arbitrator in Orange County, California in accordance with the commercial arbitration rules of the American Arbitration Association, as then in effect, or pursuant to such other form of alternative dispute resolution as the parties may agree (collectively, the "arbitration"). Subject to Section 10, the Company or the Employer shall pay filing fees and other costs required to initiate the arbitration. The arbitrator's sole authority shall be to interpret and apply the provisions of this Plan; and except as set forth herein he or she shall not change, add to, or subtract from, any of its provisions. The arbitrator shall have the power to compel attendance of witnesses at the hearing. Any court having jurisdiction may enter a judgment based upon such arbitration. The arbitrator shall be appointed by mutual agreement of the Company and the claimant; provided that if the Company and the claimant cannot agree, the arbitrator shall be appointed pursuant to the applicable commercial arbitration rules. The arbitrator shall be a professional person with a reputation in the community for expertise in employee benefit matters and who is unrelated to the claimant, the Company or its subsidiaries or any employees of the Company or its subsidiaries. All decisions of the arbitrator shall be final and binding on the claimant and the Company.

10. Legal Fees and Expenses. If any dispute arises between the parties with respect to the interpretation or performance of this Plan, the prevailing party in any arbitration or proceeding shall be entitled to recover from the other party its attorneys fees, arbitration or court costs and other expenses incurred in connection with any such proceeding. Amounts, if any, paid to the Executive under this Section 10 shall be in addition to all other amounts due to the Executive pursuant to this Plan.

11. ERISA. This Plan is an unfunded compensation arrangement for a member of a select group of the Company's management or that of its subsidiaries and any exemptions under the Employee Retirement Income Security Act of 1974, as amended, as applicable to such an arrangement shall be applicable to this Plan.

12. Miscellaneous.

12.01 Administration. This Plan may be administered by the Board or the Committee. When this Plan refers to any action by the Board, the Committee may take such action with the same effect as if it had been taken by the Board.

12.02 Amendments. This Plan may be changed, amended or modified by resolution of the Board or the Committee.

12.03 Assignment and Binding Effect.

(a) Neither this Plan nor the rights or obligations hereunder shall be assignable by the Executive or the Company except that this Plan shall be assignable to, binding upon and inure to the benefit of any successor of the Company, and any successor shall be deemed substituted for the Company upon the terms and subject to the conditions hereof'.

(b) The Company will require any successor (whether by purchase of assets, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform all of the obligations of the Company under this Plan (including the obligation to cause any subsequent successor to also assume the obligations of this Plan) unless such assumption occurs by operation of law. Nothing in this Section 12.03 is intended, however, to require that a person or group referred to in Section 2.03(a) as being the beneficial owner of shares of stock of the Company must assume the obligations under this Plan as a result of such stock ownership.

12.04 No Waiver. No waiver of any term, provision or condition of this Plan, whether by conduct or otherwise, in any one or more instances shall be deemed or be construed as a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Plan.

12.05 Rules of Construction.

(a) This Plan has been executed in, and shall be governed by and construed in accordance with the laws of, the State of California. Captions contained in this Plan are for convenience of reference only and shall not be considered or referred to in resolving questions of interpretation with respect to this Plan.

(b) If any provision of this Plan is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Plan will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Plan will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Plan will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Plan a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

12.06 Notices. Any notice required or permitted by this Plan shall be in writing, delivered by hand, or sent by registered or certified mail, return receipt requested, or by recognized courier service (regularly providing proof of delivery), addressed to the Board and the Company and where applicable, the Administrator, at the Company's then principal office, or to the Executive at the address set forth in the records of the Employer, as the case may be, or to such other address or addresses the Company or the Executive may from time to time specify in writing. Notices shall be deemed given when received.