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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 29, 2001

or

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

For the transition period from to .

Commission File Number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of Incorporation or organization)**	**33-0956711** **(I.R.S. Employer Identification No.)**
20511 Lake Forest Drive **Lake Forest, California** **(Address of principal executive offices)**	**92630** **(Zip Code)**

Registrant's telephone number, including area code: (949) 672-7000

Registrant's Web Site: http://www.westerndigital.com

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $.01 Par Value	**New York Stock Exchange**
Rights to Purchase Series A Junior Participating Preferred Stock	**New York Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

As of August 24, 2001, the aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant was $673.2 million.

As of August 24, 2001, the number of outstanding shares of Common Stock, par value $.01 per share, of the Registrant was 186,901,132.

Documents Incorporated by Reference

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy Statement for the 2001 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2001 fiscal year.

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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. The 1999, 2000 and 2001 fiscal years ended on July 3, June 30, and June 29, respectively, and consisted of 53 weeks for fiscal year 1999 and 52 weeks for fiscal years 2000 and 2001.

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

On April 6, 2001, the Company established a holding company organizational structure, under which Western Digital Corporation operates as the parent company of its hard drive business, Western Digital Technologies, Inc. ("WDT"), and other subsidiaries. Unless the context otherwise requires, the terms the "Company" and "Western Digital" refer to Western Digital Corporation and its predecessors and subsidiaries.

The Company's principal executive offices are located at 20511 Lake Forest Drive, Lake Forest, California 92630. The Company's telephone number is (949) 672-7000 and its web site is http://www.westerndigital.com. The information on the web site is not incorporated in this report.

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PART I

Item 1. *Business*

General

Western Digital Corporation (the "Company" or "Western Digital") operates as the parent company of Western Digital Technologies, Inc. ("WDT") and other subsidiaries. WDT designs, develops, manufactures and markets hard drives, the Company's core business, featuring leading-edge technology. A hard drive is a storage device found in most computers that stores data on one or more rotating magnetic disks that provide fast access to data that must be readily available to users of computers or other devices. The Company's hard drives are used in desktop PC's, entry level servers, network attached storage devices, video game consoles, digital video recording devices, digital cable set-top boxes, satellite television boxes and audio/visual juke boxes. The Company's hard drive products currently include 1.0-inch high, 3.5-inch form factor drives with capacities ranging from 8 gigabytes ("GB") to 100 GB, rotation speeds of 5400 and 7200 revolutions per minute ("rpm") and the Enhanced Integrated Drive Electronics ("EIDE") interface. The Company sells its products worldwide to computer manufacturers for inclusion in their computer systems or subsystems and to distributors, resellers and retailers. The Company's hard drive products are currently manufactured in Malaysia. In January 2000, the Company announced its decision to cease production of Small Computer System Interface ("SCSI") hard drives and closed its Rochester, Minnesota hard drive design center.

The Company continuously evaluates opportunities to apply its data storage core competencies to emerging markets and to expand beyond the traditional market for hard drives through new business ventures and market areas which meet certain predefined criteria. In February 1999, the Company acquired Connex, Inc. ("Connex"), a San Jose-based startup company that designed network attached storage products. During 2001 the Company formed SANavigator, Inc. ("SANavigator") to develop and market storage area network ("SAN") management. Subsequent to June 29, 2001, the Company sold substantially all of the assets of Connex and SANavigator and, accordingly, discontinued these operations.

In February 2000, the Company formed SageTree, Inc. ("SageTree") to design and market packaged analytical software and related services for supply chain and product life cycle applications. In June 2000, SageTree received a direct investment from NCR Corporation in exchange for a minority interest in SageTree. For further discussion of SageTree, see under the heading "Products — Products Developed by SageTree" and Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

In February 2000, the Company also formed Cameo Technologies, Inc. ("Cameo") to develop and market technologies and services for delivering high-quality digital video content to PC users. Cameo entered into an agreement with Universal Pictures in June 2001 to deliver Universal's promotional materials to connected PC users. For further discussion of Cameo, see under the heading "Products — Products Developed by Cameo Technologies" and Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

In October 2000, the Company formed Keen Personal Media, Inc. ("Keen PM") to develop and market interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce. Keen PM entered into a joint development agreement during October 2000 to develop and license its digital video recorder storage management subsystem software to Scientific-Atlanta. For further discussion of Keen PM,

see under the heading “Products — Products Developed by Keen PM” and Part II, Item 7, under the heading “Risk factors relating to Western Digital particularly.”

The Company monitors the development of new markets related to data or content storage and storage management, and communication of digital content and network intelligence, and may from time to time offer new products or services to address appropriate new markets. Conversely, depending on the development of such markets and the Company’s ability to achieve its goals, the Company may, from time to time withdraw from certain markets.

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Industry

Desktop PC Market. According to International Data Corporation (“IDC”), the desktop computer segment is the largest segment of the worldwide personal computer market, accounting for approximately 79% of global personal computer shipments in calendar 2000. As a result, desktop computers were the leading source of demand for hard drives, accounting for more than 74% of all hard drive units shipped worldwide in calendar 2000, according to IDC. Over 90% of Western Digital’s hard drive unit shipments in 2001 were sold to this market. Desktop personal computers for entry level to experienced users are used in both commercial and consumer environments. The demand for hard drive capacity continues to grow in part due to:

- continued improvements in desktop computing price to performance ratios;
- continued growth of the sub-$1,000 PC market;
- the rapid accumulation of data resulting from the digitization of information previously stored in paper form;
- larger file sizes created by multimedia-intensive applications such as high-fidelity audio and video; and
- the exchange of increasing volumes of digital content among users across the Internet and intranets with the proliferation of collaborative computing and sharing of audio and video content.

Future demand growth for desktop computer hard drives also may be driven by new and emerging hard drive markets. In September 2001, IDC forecasted that the worldwide desktop PC hard drive market would grow from approximately 139 million units in calendar 2001 to 193 million units in calendar 2005, reflecting a compound annual growth rate of approximately 8.5%. Revenue growth is expected to be lower due to the impact of severe price competition. However, in August 2001, IDC forecasted that the non-desktop PC hard drive market would grow from approximately 1.1 million units in calendar 2000 to 37.2 million units in calendar 2004, reflecting a compound annual growth rate of approximately 120%. See Part II, Item 7, under the heading “Risk factors related to the hard drive industry in which we operate.”

Desktop PCs are used in a number of environments, ranging from homes to businesses and multi-user networks. Software applications are used on desktop PCs primarily for word processing, spreadsheet, desktop publishing, database management, multimedia, entertainment and other related applications. Desktop PCs typically utilize the EIDE interface for hard drives. The Company believes the minimum storage requirement in the past year for entry-level PCs was generally 10 GB to 20 GB of formatted capacity.

The industry continues to supply increased capacity per unit as users’ system needs increase and technological and manufacturing advances continue to make higher capacity drives more affordable. In the mainstream desktop PC market, the Company believes that the rate of increase in storage capacity per unit has recently outpaced the rate of increase in demand for such capacity. This will result in the Company changing its product mix, with an increasing percentage of lower capacity hard drives manufactured with fewer heads and disks per unit. The Company believes that even though unit demand will increase, this changing product mix will reduce the average selling price per hard drive unit in the desktop PC market. In contrast, the emerging use of hard drives to record and play back audio and video content in the audio-visual market is expected to create demand for storage capacity that will exceed the growth in demand for increased capacity in the desktop PC market. Overall, industry sources believe that the current rate of increase in storage capacity per unit shipped will continue for the foreseeable future. Accordingly, the Company believes that time-to-market, time-to-volume and time-to-quality leadership with higher capacity drives at attractive price levels will continue to be critical to its future success in serving this market.

Users of desktop PCs, especially entry-level desktop PCs, have become increasingly price sensitive. In 1999 the market for desktop PC’s priced below $1,000 grew significantly, and in 2000 the market for desktop PC’s priced below $800 was the fastest growing segment of the market. Data for 2001 indicates that during the latter part of 2001, the growth in sales of entry-level PCs had abated. These systems typically do not contain high performance hard drives, but the growth of these segments in 1999 and 2000 has placed downward price pressure on higher cost systems as well, thereby contributing to the increasing price pressures on desktop hard

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drives. See Part II, Item 7, under the heading “Risk factors related to the hard drive industry in which we operate.”

Emerging Audio-visual Markets. Audio-visual content stored for entertainment has historically been stored on removable media, such as compact disks (“CDs”), digital video disks (“DVDs”), and videotape. These media have also been used to transport and deliver content. The emergence of broadband communications as a means of delivering digital content makes it unnecessary to use the removable media itself for delivery. This allows hard drives to become the storage media for this digital, audio-visual content as it is delivered through broadband communications. This has led to the use of hard drives in products for consumer broadband communications networks, such as cable and satellite networks. Audio-visual applications such as digital video recording devices represent a developing market opportunity for the Company’s hard drive technologies. Hard drive technology makes it possible to simultaneously record and play back content; to pause and skip forward and backward during live broadcasts; and to rapidly access large amounts of audio-visual content.

Because the market for audio-visual products has not yet developed, it is too early to project the likely size and growth of such market. For further discussion of this product development effort, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Products

The Company's WD Caviar® and WD Protege™ hard drive products are designed to serve the advanced and value portions, respectively, of the desktop PC market, entry level server markets and game console markets, and its WD Performer™ hard drive products are designed to serve the emerging audio-visual portion of the hard drive market.

Desktop PC and Entry-Level Server Hard Drive Products. The WD Caviar and WD Protege families currently consists of 1.0" high, 3.5-inch form factor products with capacities ranging from 8 GB to 100 GB and rotation speeds of 5400 and 7200 rpm. In 1998 the Company introduced the Data Lifeguard™ feature, an exclusive data reliability feature which is now implemented in all of the Company's hard drives. Data Lifeguard protects end-user data by automatically detecting, isolating, and repairing possible problem areas on the hard drive before data loss can occur. These products utilize the EIDE interface, providing high performance while retaining ease of use and overall low cost of connection. The type of EIDE interface currently used in substantially all of the Company's hard drives is ATA/100, which signifies an internal data transfer rate of 100 megabytes per second, almost twice as fast as the previous generation of EIDE interface. The Company also sells a line of hard drives and related adapters which are designed to accommodate an interface known as "1394/ Firewire/ i.Link", for use primarily in connecting digital consumer electronic devices, such as digital video camcorders.

The Western Digital product line generally leverages a common architecture or "platform" for various products with different capacities to serve the differing market needs. This platform strategy results in commonality of components across different products, which reduces exposure to changes in demand, facilitates inventory management and allows the Company to achieve lower costs through economies of scale purchasing. This platform strategy also enables computer manufacturer customers to leverage their qualification efforts onto successive product models. The Company expects to continue to utilize this platform strategy as it develops products for the emerging market for hard drives specifically designed for audio-visual applications, such as new digital video recording devices.

Audio-visual Hard Drive Products. The Company offers customized design capabilities and unique hard drive technologies for consumer applications; however, where practical, the Company intends to leverage its existing product line architectures for the various products for the audio-visual market. The Company is currently offering the WD Performer™ hard drive product line designed for use in consumer audio-video applications. It is also developing hard drives and products incorporating hard drive technology for consumer electronics products including digital cable set-top boxes, satellite television boxes, audio-visual jukeboxes and video game consoles.

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Products Developed by Keen PM. Keen PM is a broadband products and services company, developing and marketing interactive personal video recorder technologies for television and Internet content management and television-based commerce. Keen PM offers TV4me™, a next-generation Personal Video Recorder ("PVR") technology that is designed specifically for cable television system operators.

Products Developed by Cameo Technologies. Cameo is a new software and services company that provides personalized digital video entertainment for consumers. Cameo offers CameoCAST™, a consumer network that delivers and manages video entertainment and promotional content locally on consumers' personal computers.

Products Developed by SageTree. SageTree offers analytical software and services for enterprise-wide supply chain intelligence, product lifecycle intelligence and decision support in the manufacturing industry. The SageTree software is a Web-based suite of packaged analytic applications designed for the manufacturing industry. The applications collect and synthesize dissimilar data across an enterprise and transform the data into customized, accurate reports that assist management in solving business and operational issues. This allows rapid analysis and management of a manufacturer's products and components at all stages of the product lifecycle, including products in manufacturing and in the field. The applications use advanced analytics and data warehousing technology to create "supply chain intelligence". The objectives of supply chain intelligence include improved manufacturing yield, product quality and reliability, and customer satisfaction.

SageTree also offers professional services for data warehousing and analytic applications, including manufacturing and supply chain consulting, implementation services, advanced analytics, training and post-implementation support.

Technology and Product Development

Hard drives are used to record, store and retrieve digital data. Their performance attributes are currently better than removable or floppy disks, optical disk drives and tape, and they are more cost effective than semiconductor technology. The primary measures of hard drive performance include:

"Storage capacity" — the amount of data that can be stored on the hard drive — commonly expressed in gigabytes.

"Average seek time" — the time needed to position the heads over a selected track on the disk surface — commonly expressed in milliseconds.

"Internal data transfer rate" — the rate at which data is transferred to and from the disk — commonly expressed in megabits per second.

"Spindle rotational speed" — the rotational speed of the disks inside the hard drive — commonly expressed in rpms or revolutions per minute.

All of the Company's hard drive products employ similar technology. The main components of the hard drive are the head disk assembly and the printed circuit board. The head disk assembly includes the head, media (disks), head positioning mechanism (actuator) and spin motor. These components are contained in a hard base plate protective package in a contamination-free environment. The printed circuit board includes custom integrated circuits, an interface connector to the host computer and a power connector.

The head disk assembly is comprised of one or more disks positioned around a spindle hub that rotates the disks by a spin motor. Disks are made of a smooth substrate to which a thin coating of magnetic materials is applied. Each disk has a head suspended directly above it, which can read data from or write data to the spinning disk. The sensor element of the head, also known as the slider, is getting progressively smaller, resulting in reduced material costs.

The integrated circuits on the printed circuit board typically include a drive interface and a controller. The drive interface receives instructions from the computer, while the controller directs the flow of data to or from the disks and controls the heads. The location of data on each disk is logically maintained in concentric

tracks which are divided into sectors. The computer sends instructions to the controller to read data from or write data to the disks based on track and sector locations. Guided by instructions from the controller, the head stack assembly is pivoted and swung across the disk by a head actuator or motor until it reaches the selected track of a disk, where the data is recorded or retrieved.

Industry standard interfaces are utilized to allow the disk drive to communicate with the computer. Currently, the primary interface for desktop PCs is EIDE. Increasingly, work station computers are using the EIDE interface as well. As computer performance continues to improve, the hard drive will need to deliver information faster than this interface can handle. Accordingly the desktop PC industry plans to transition to higher speed interfaces to handle the higher data transfer rates. The Company is working to develop products that will support these higher speed interfaces.

Storage capacity of the hard drive is determined by the number of disks and each disk's areal density, which is a measure of the amount of data that can be stored on the recording surface of the disk. Areal density is generally measured in megabits per square inch of disk surface. The higher the areal density, the more information can be stored on a single platter. As the areal density increases, fewer disks and/or heads are required to achieve a given drive capacity, thus reducing product costs through reduced component requirements.

Head technology is one of the variables affecting areal density. The desktop hard drive industry has completed a transition to magnetoresistive head technology, which allows significantly higher storage capacities than the previously utilized thin-film head technology. Magnetoresistive heads have discrete read and write structures which provide more signal than the older thin-film inductive heads. This allows significantly higher areal densities, which increases storage capacity per disk and improves manufacturing margin and product reliability. The Company completed the transition to magnetoresistive head technology in 1999, and in 2000, completed the transition to the next generation of head technology, known as giant magnetoresistive, and currently all of the Company's hard drive product offerings employ giant magnetoresistive head technology.

Constant innovations in research and development are essential to the Company's ability to compete. Hard drive providers are evaluating or implementing a number of technological innovations designed to further increase hard drive performance and reduce product costs, including simplifying the electronic architecture by combining the traditional controller, channel, microprocessor and servo-interface management functions of traditional hard drive microprocessors on a single integrated circuit. Moreover, to consistently achieve timely introduction and rapid volume production of new products, some hard drive providers are striving to simplify their product design processes by focusing on creating extendible core technology platforms which utilize common firmware and mechanical designs and re-use of manufacturing tooling and application specific integrated circuits across various product generations and product lines.

Sales and Distribution

The Company sells its products globally to computer manufacturers, distributors, value-added resellers, dealers, system integrators, retailers and internet-based retailers. Manufacturers typically purchase components such as hard drives and assemble them into the computer systems they build. Distributors typically sell the Company's drives to small manufacturers, dealers, system integrators and other resellers.

Manufacturers. Sales to manufacturers accounted for 70%, 65% and 59% of consolidated revenues in 1999, 2000 and 2001, respectively. The Company's major computer manufacturer customers include Apple Computer, Compaq Computer, Dell Computer, Fujitsu, Gateway, Hewlett-Packard, IBM, Intel, Micron Electronics and NEC. During both 1999 and 2000 sales to Compaq accounted for 21% of revenues. During 2001 sales to Compaq and to Dell accounted for 12% and 17% of revenues, respectively. The Company believes that its success depends on its ability to maintain and improve its strong relationships with the leading

computer manufacturers. Western Digital, Quantum, Maxtor and Seagate have historically had the highest market share with these manufacturers. During 2001, Maxtor acquired the hard drive business of Quantum. However, the remaining number of qualified suppliers to the leading manufacturers, combined with the continued growth of the sub-$1,000 PC market and a recent economic slowdown, has placed continuous downward pressure on hard drive prices. This pressure, in turn, has reduced average gross margins for hard drive suppliers.

The leading PC computer manufacturers have been gaining market share, which has increased their purchasing leverage over component suppliers. In calendar year 2000, the top ten desktop personal computer manufacturers accounted for more than 58% of all shipments and a significant amount of the growth in the desktop PC market. As a result, maintaining customer satisfaction with these leading computer manufacturers has become even more critical.

Computer manufacturers typically seek to qualify up to three or four providers for each generation of hard drives. Once a computer manufacturer has chosen its qualified hard drive vendors for a given product, it generally will purchase hard drives from those vendors for the life of that product. To achieve consistent success with computer manufacturers' qualifications, a hard drive supplier must be an early provider of next generation hard drives featuring leading technology and high capacity per disk. Suppliers must quickly achieve volume production of high quality and reliable hard drives. To quickly achieve high volume production, a hard drive supplier must have access to flexible, high-capacity, high-quality manufacturing capabilities. Factors on which computer manufacturers evaluate their hard drive suppliers include overall quality, storage capacities, performance characteristics, price, ease of doing business, and the supplier's long-term financial stability.

The business models of computer manufacturers have been changing, and these changes have impacted, and will continue to impact, Western Digital's sales, inventory and distribution patterns. Most of the computer industry has used a forecast-driven, long-production-run logistics model. This model limits the computer manufacturers' flexibility to react to rapid technology changes and component pricing fluctuations. Some of the Company's customers have implemented a supply chain logistics model that combines "build-to-order" (computer manufacturer does not build until there is an order backlog) and "contract manufacturing" (computer manufacturer contracts assembly work to a contract manufacturer who purchases components and assembles the computer based on the computer manufacturer's instructions.) The Company has adapted its logistics model to effectively align with these industry shifts. These changes require greater skill in managing finished goods inventory and more flexibility in manufacturing, both of which in turn require even closer relationships between the Company and its computer manufacturer and contract manufacturer customers. To help meet these challenges, the Company is expanding its use of Internet technology and web-based supply chain planning tools.

For an additional discussion of the changes in customer models, refer to Part II, Item 7, under the headings "Risk factors related to the hard drive industry in which we operate," and "Risk factors related to Western Digital particularly."

The Company maintains a base stock of two to three weeks of current, finished goods inventory for certain key computer manufacturer customers in facilities located adjacent to their operations. Inventory at these locations usually includes minor product customizations (such as labeling) for the related computer manufacturer. If subsequent to its initial order the computer manufacturer changes its requirements, inventory held at these facilities can be sold to other computer manufacturers or distributors as is or with minor modifications (such as a change in labeling) at little or no additional cost. Therefore, these arrangements, even if not fulfilled, have minimal impact on inventory valuation.

Distributors. The Company uses a select group of distributors to sell its products to small computer manufacturers, value-added resellers, resellers and systems integrators. The Company's major distributor customers include ASI, Decision Support Systems, ELD, Ingram Micro, Merisel, Servex, Synnex and Tech Data. Distributors and retailers combined accounted for approximately 30%, 35% and 41% of disk drive revenue for 1999, 2000 and 2001, respectively. Distributors generally enter into non-exclusive agreements with

the Company for purchase and redistribution of product on a quick turnover basis. Purchase orders are placed and revised on a weekly basis. The Company grants certain of its distributors price protection and limited rights to return product on a rotation basis.

Retailers. The Company sells its retail-packaged products directly to a select group of major retailers such as computer superstores, warehouse clubs and computer electronics stores and authorizes sales through distributors to smaller retailers. Major retailers to whom the Company sells directly include Best Buy, Circuit City, CompUSA, Office Depot, Vobis and Fry's Electronics. Retailers accounted for approximately 6%, 5% and 6% of revenue for 1999, 2000 and 2001, respectively. The Company's current retail customer base is primarily in the United States, Canada and Europe. The retail channel complements the Company's other sales channels while helping to build brand awareness for the Company and its products. Retailers supply the aftermarket "upgrade" sector in which end-users purchase and install products to upgrade their computers. The Company grants certain of its retailers price protection and limited rights to return product on a rotation basis. The Company also sells its retail-packaged products through the Internet, at its website, http://www.westerndigital.com.

The Company maintains sales offices throughout North America, Eastern and Western Europe, the Middle East, Japan and Southeast Asia. Field application engineering is provided to strategic computer manufacturer accounts, and end-user technical support services are provided within the United States and Europe. The Company's end-user technical support is supplied by both employees and qualified third-party support organizations through telephone support during business hours and via the Company's website.

The Company's international sales, which include sales to foreign subsidiaries of U.S. companies, represented 45%, 53% and 41% of revenues for fiscal years 1999, 2000 and 2001, respectively. Sales to international customers may be subject to certain risks not normally encountered in domestic operations, including exposure to tariffs, various trade regulations and fluctuations in currency exchange rates. See Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

For information concerning revenue recognition, sales by geographic region and significant customer information, see Notes 1 and 9, respectively, of Notes to Consolidated Financial Statements.

The Company's marketing and advertising functions are performed both internally and through outside firms. Advertising, direct marketing, worldwide packaging and marketing materials are targeted to various end-user segments. Western Digital utilizes both consumer media and trade publications. The Company has programs under which qualifying manufacturers and resellers are reimbursed for certain advertising expenditures. Western Digital also invests in direct marketing and customer satisfaction programs. The Company maintains ongoing contact with end users through primary and secondary market research, focus groups, product registrations and technical support databases.

Competition

In the desktop hard drive market, the Company has competed primarily with Fujitsu, IBM, Maxtor, Quantum, Samsung and Seagate. During the last year, Maxtor acquired the hard drive business of Quantum and, recently, Fujitsu announced that it would exit the desktop hard drive market, decreasing the number of major competitors.

The hard drive industry is intensely competitive, with hard drive suppliers competing for a limited number of major customers. Hard drives manufactured by different competitors are highly substitutable due to the industry mandate of technical form, fit and function standards. Hard drive manufacturers compete on the basis of product quality and reliability, storage capacity, unit price, product performance, production volume capabilities, delivery capability, leadership in time-to-market, time-to-volume and time-to-quality and ease of doing business. The relative importance of these factors varies among different customer and market segments. The Company believes that it is generally competitive in all of these factors.

The Company believes that it cannot differentiate its hard drive products solely on attributes such as storage capacity; therefore, the Company also differentiates itself by designing and incorporating into its hard drives desirable product performance attributes and by emphasizing rapid response with its computer

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manufacturer and distribution customers and brand equity with its end users. These product performance attributes include seek time, data transfer rates, intelligent caching, failure prediction, remote diagnostics, acoustics and data recovery. Rapid response requires accelerated design cycles, customer delivery and production flexibility, which contribute to customer satisfaction. Data storage has become strategically critical for computer end users. Consequently, the Company believes that trust in a manufacturer's reputation has become an important factor in the selection of a hard drive, particularly within such a rapidly changing technology environment. The Company believes it has strong brand equity with its end users.

The Company completed its transition to magnetoresistive technology in 1999 and completed its transition to giant magnetoresistive technology in 2000. During the first quarter of 2000, the Company lost market share as a result of a product recall; however, the Company recovered some of its market share as it regained a leadership position in quality and time-to-market during the remainder of 2000 and continued to regain market share during 2001.

The desktop hard drive market is characterized by many competitors and short product life cycles; therefore, it has traditionally been subject to periods of sustained and severe price competition, and factors such as time-to-market can have a pronounced effect on the success of any particular product.

Advances in magnetic, optical or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than the Company's hard drive products. High-speed semiconductor memory could compete with the Company's hard drive products in the future. Semiconductor memory is much faster than magnetic disk drives, but currently is volatile (i.e., subject to loss of data in the event of power failure) and much more costly. Flash memory, a nonvolatile semiconductor memory, is currently much more costly and, while it has higher "read" performance than hard drives, it has lower "write" performance. Flash memory could become competitive in the near future for applications requiring less storage capacity than that provided by hard drives.

For an additional discussion of competition, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Service and Warranty

Western Digital generally warrants its newly manufactured hard drives against defects in materials and workmanship for a period of one to three years from the date of sale. The Company's warranty obligation is generally limited to repair or replacement of the hard drive. The Company has contracted with a third party in the United States to process and test returned hard drives for the Company's end users. The Company refurbishes or repairs its products at third-party service facilities located in Singapore and Germany.

Manufacturing

To be competitive, Western Digital must manufacture high quality hard drives with industry leading time-to-volume production at competitive unit costs. The Company strives to maintain manufacturing flexibility, high manufacturing yields and high-quality components at competitive prices. The critical elements of Western Digital's hard drive production are high volume, low cost assembly and testing, and establishment and maintenance of key vendor relationships in order to create "virtual vertical integration." By establishing partner relationships with its strategic component suppliers, the Company believes it is able to access "best-of-class" manufacturing quality without the substantial capital investment associated with actual vertical integration. In addition, the Company believes that its virtual vertical integration model enables it to have the business flexibility needed to select the highest quality low cost suppliers as product designs and technologies evolve.

Hard drive manufacturing is a complex process involving the assembly of precision components with narrow tolerances and extensive testing to ensure reliability. The assembly process occurs in a "clean room"

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environment which demands skill in process engineering and efficient utilization of the "clean room" layout in order to reduce the high operating costs of this manufacturing environment. The Company's clean room manufacturing process consists of modular production units, each of which contains a number of work cells. With increased areal density requirements of new products introduced, the ability to achieve historically high yields has decreased.

The Company produces hard drives in one plant in Malaysia. As a continuation of its virtual vertical integration model, the Company sold its media manufacturing division in 1999 to Komag, Inc. ("Komag"). With the sale of this division, the Company now purchases all of the standard mechanical components and micro controllers for its hard drives from external suppliers.

The Company continually evaluates its manufacturing processes in an effort to increase productivity and decrease manufacturing costs. In order to address inventory oversupply, the Company reduced excess manufacturing capacity by closing two manufacturing facilities in Singapore during 1999 and 2000 and relocating its hard drive production to Malaysia. The Company continually evaluates which steps in the manufacturing process would benefit from automation and how automated manufacturing processes support the Company's business plans.

For an additional discussion of manufacturing, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Research and Development

The Company devotes substantial resources to development of new products and improvement of existing products. The Company focuses its engineering efforts on coordinating its product design and manufacturing processes in order to bring its products to market in a cost-effective and timely manner. Research and development expenses for continuing operations totaled $198.4, $150.7 and $122.5 million in 1999, 2000 and 2001, respectively. The decreases from 1999 to

2000 and from 2000 to 2001 were due to the Company's exit from SCSI hard drive production during 2000 and expense reduction efforts in its remaining hard drive operations, partially offset by increased spending in the Company's developing new business ventures.

For a discussion of product development, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Materials and Supplies

The principal components currently used in the manufacture of the Company's hard drives are magnetic heads and related head stack assemblies, media, controllers, spindle motors and mechanical parts used in the head-disk assembly. In addition to its own proprietary semiconductor devices, the Company also uses standard semiconductor components such as logic, memory and microprocessor devices obtained from other manufacturers and a wide variety of other parts, including connectors, cables, and other interconnect technology.

Unlike some of its competitors, the Company acquires all of the components for its products from third-party suppliers. In general, the Company tries to have at least three suppliers for each of its component requirements. For example, the Company currently buys giant magnetoresistive heads from IBM, Read-Rite and SAE. Media requirements are purchased from several outside vendors including Komag, Fuji, Trace and Showa. In connection with the sale of its media manufacturing division to Komag in April 1999, the Company entered into a volume purchase agreement with Komag. Under this Agreement, which expires in April 2002, the Company is obligated to purchase a substantial percentage of its requirements for hard disk media from Komag as long as Komag's prices, technology and quality remain competitive. Subsequent to June 29, 2001, Komag announced the voluntary filing for Chapter 11 reorganization. Komag further announced that it expects to continue its operations during the Chapter 11 process. Komag Malaysia, a separate subsidiary which did not file Chapter 11, is the manufacturing entity which supplies the Company's media. The Company is in discussions with Komag concerning an extension of the Agreement beyond its April 2002 expiration date.

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Some custom integrated circuits are currently sole-sourced from STMicroelectronics. Because of their custom nature, these products require significant design-in periods and long lead times. There has been a trend in integrated circuit design toward increased integration of various separate circuits. The Company expects this trend to continue in the area of custom integrated circuits for hard drives.

For an additional discussion of component supplies, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Backlog

At August 24, 2001, the Company's backlog, consisting of orders scheduled for delivery within the next twelve months, was approximately $287 million, compared with a backlog at September 18, 2000 of approximately $294 million. The Company expects this entire backlog to be delivered within the current fiscal year. Historically, a substantial portion of the Company's orders has been for shipments within 30 to 60 days of the placement of the order. The Company generally negotiates pricing, order lead times, product support requirements and other terms and conditions prior to receiving a computer manufacturer's first purchase order for a product. Manufacturers' purchase orders typically may be canceled with relatively short notice to the Company, with little or no cost to the customer, or modified by customers to provide for delivery at a later date. Also, certain of the Company's sales to computer manufacturers are made under "just-in-time" delivery contracts that do not generally require firm order commitments by the customer until the time of sale. Therefore, backlog information as of the end of a particular period is not necessarily indicative of future levels of the Company's revenue and profit and may not be comparable to earlier periods.

Patents, Licenses and Proprietary Information

The Company owns numerous patents and has many patent applications in process. The Company believes that, although its patents and patent applications have significant value, the successful manufacturing and marketing of its products depends primarily upon the technical competence and creative ability of its personnel. Accordingly, the patents held and applied for do not assure the Company's future success.

In addition to patent protection of certain intellectual property rights, the Company considers elements of its product designs and processes to be proprietary and confidential. The Company believes that its nonpatented intellectual property, particularly some of its process technology, is an important factor in its success. Western Digital relies upon employee, consultant, and vendor non-disclosure agreements and a system of internal safeguards to protect its proprietary information. Despite these safeguards, there is a risk that competitors may obtain and use such information. The laws of foreign jurisdictions in which the Company does business also may provide less protection for confidential information than the United States.

The Company relies on certain technology that is licensed from other parties in order to manufacture and sell its products. The Company has cross-licensing agreements with several competitors, customers and suppliers, and the Company believes that it has adequate licenses and other agreements in place in addition to its own intellectual property portfolio to compete successfully in the hard drive industry.

For additional discussion of intellectual property, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Environmental Regulation

The Company is subject to a variety of regulations in connection with its operations. It believes that it has obtained or is in the process of obtaining all necessary permits for its domestic operations.

Employees

As of June 29, 2001, the Company employed a total of 7,909 full-time employees worldwide. This represents an increase in headcount of approximately 8% since June 30, 2000 and a reduction of approximately 25% since July 3, 1999, as the Company responded to the industry downturn and its decrease in sales by restructuring its hard drive business during 1999 and 2000. The Company employed 1,174 employees in the

United States, 6,630 employees in Malaysia, 27 employees in Singapore, and 78 employees at its international sales offices as of June 29, 2001.

Many of the Company's employees are highly skilled, and the Company's continued success depends in part upon its ability to attract and retain such employees. Accordingly, the Company offers employee benefit programs which it believes are at least equivalent to those offered by its competitors. Despite these programs, the Company has, along with most of its competitors, experienced difficulty at times in hiring and retaining certain skilled personnel. In critical areas, the Company has utilized consultants and contract personnel to fill these needs until full-time employees could be recruited. The Company has never experienced a work stoppage, none of its domestic employees are represented by a labor organization, and the Company considers its employee relations to be good.

Item 2. ***Properties***

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. The Company's corporate headquarters houses management, research and development, administrative and sales personnel. The Company leases one facility in San Jose, California and one facility in Irvine, California, for research and development and new venture activities. The San Jose lease expires in July 2006 and the Irvine research and development facility lease expires in September 2010. Western Digital owns a manufacturing facility in Kuala Lumpur, Malaysia. The Company also leases office space in various other locations throughout the world primarily for sales and technical support.

The Company's present facilities are adequate for its current needs, although the process of upgrading its facilities to meet technological and market requirements is expected to continue. The hard drive industry does not generally require long lead time to develop and begin operations in new manufacturing facilities.

During 2000 the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for $26 million (the approximate cost of the land). The Company also 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).

Item 3. ***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.

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 Superior Court for the County of Orange 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 asserted claims for unpaid wages, fraud, breach of fiduciary duty, breach of contract, and unfair business practices. The Company removed the suit to United States District Court, Central District of California, on the ground that all of the claims were preempted by the Employee Retirement Income Security Act of 1974. On January 26, 2001, the Company filed a motion to dismiss plaintiffs' complaint under Federal Rule of Civil Procedure 12(b). The Court granted the Company's motion with leave to amend on April 2, 2001. Plaintiffs filed an amended complaint on April 6, 2001, and the Company filed a motion to dismiss the amended complaint under Federal Rule of Civil Procedure 12(b) on June 4, 2001. The Court granted the Company's motion and dismissed plaintiffs' amended complaint with prejudice on August 6, 2001. On September 5, 2001, the Court entered a stipulated order according to which plaintiffs agreed to waive their right to appeal the Court's order dismissing their claims in exchange for the Company's agreeing to waive its right to costs and fees as the prevailing party under ERISA.

On May 22, 2001, Cambrian Consultants, Inc. ("Cambrian") filed a complaint against the Company in the United States District Court, Central District of California. The suit alleges infringement by the Company of a Cambrian patent. On July 20, 2001, the Company filed an answer denying the allegations contained in Cambrian's complaint and a counterclaim asserting that Cambrian's patent was invalid. The Court ordered that a Markman hearing to construe the

claims of Cambrian's patent be held on April 15, 2002 and set a briefing schedule leading up to the hearing. Both parties are engaged in discovery and expect that such discovery will continue for at least the next several months. Based on its initial investigation and the limited discovery done to date, the Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operation or liquidity.

On July 5, 2001, the Company (and its Malaysian subsidiary) filed suit against Cirrus Logic, Inc. ("Cirrus") in California Superior Court for the County of Orange for breach of contract and other claims resulting from Cirrus' role as a strategic supplier of read channel chips for the Company's hard drives. The Company also stopped making payments to Cirrus for past deliveries of chips and terminated all outstanding purchase orders from Cirrus for such chips. The Company's complaint alleges that Cirrus' unlawful conduct caused damages in excess of any amounts that may be owing on outstanding invoices or arising out of any alleged breach of the outstanding purchase orders. On August 20, 2001, Cirrus filed an answer and cross-complaint. Cirrus denied the allegations contained in the Company's complaint and asserted counterclaims against the Company for, among other things, the amount of the outstanding invoices and the Company's alleged breach of the outstanding purchase orders. The parties have begun discovery and expect that such discovery will continue for the next several months. Based on its initial investigation and the limited

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discovery done to date, the Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operation 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 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

Executive Officers of the Registrant

The names, ages and positions of all the executive officers of the Company as of September 25, 2001 are listed below, followed by a brief account of their business experience during the past five years. Executive officers are normally elected annually by the Board of Directors at a meeting of the directors immediately following the Annual Meeting of Shareholders. There are no family relationships among these officers nor any arrangements or understandings between any officer and any other person pursuant to which an officer was selected.

Name	Age	Position
Matthew E. Massengill	40	President and Chief Executive Officer
Arif Shakeel	46	Executive Vice President, Chief Operating Officer
Teresa A. Hopp	42	Senior Vice President, Chief Financial Officer
Charles W. Frank, Jr.	53	Vice President, Chief Technical Officer
Michael A. Cornelius	59	Vice President, Law and Administration, and Secretary
Steven M. Slavin	50	Vice President, Taxes and Treasurer
David C. Fetah	41	Vice President, Human Resources

Messrs. Massengill, Cornelius, Frank and Slavin have been employed by the Company for more than five years and have served in various executive capacities with the Company before being appointed to their present positions.

Mr. Shakeel joined the Company in 1985 as Product Manager, Integrated Drive Electronics. Mr. Shakeel served in various executive capacities, including Vice President, Materials — Asia, until October 1997, when he left the Company to become Managing Director of Mah Lin Associates, a supplier of electromechanical components in Singapore. Mr. Shakeel rejoined the Company in April 1999 as Senior Vice President of Operations, Drive Products Division. He became Senior Vice President of Worldwide Operations in July 1999. In February 2000 he became Executive Vice President and General Manager of Hard Drive Solutions. He was promoted to his current position in April 2001.

Ms. Hopp joined the Company in 1998 as Vice President, Finance. Prior to joining the Company, she was an audit partner at Ernst & Young, her employer for 17 years. She was promoted to Senior Vice President, Chief Financial Officer in December 1999. On June 12, 2001 the Company announced Ms. Hopp's resignation. Her resignation was effective September 26, 2001.

Mr. Fetah joined the Company in March 2000 as Vice President of Human Resources. Prior to joining the Company, he served as Executive Director, Human Resources, for PeopleSoft, Inc. Prior to joining PeopleSoft in 1996, he was Manager, Human Resources, for Fluor Corporation where he served for 5 years.

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PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Western Digital's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "WDC." The approximate number of holders of record of common stock of the Company as of August 24, 2001 was 3,504.

On April 6, 2001, Western Digital Corporation adopted a holding company organizational structure. In connection with the establishment of the holding company, each share of Western Digital Technologies, Inc. (f/k/a Western Digital Corporation) was converted on a share for share basis, into a share of Western Digital Corporation.

The Company has not paid any cash dividends on its common stock and does not intend to pay any cash dividends on common stock in the foreseeable future.

The high and low sales prices of the Company's common stock, as reported by the NYSE, for each quarter of 2000 and 2001 are as follows:

	First	Second	Third	Fourth
2000				
High	$7.56	$4.50	$8.81	$7.88
Low	3.50	2.75	3.94	3.94
2001				
High	$6.44	$6.81	$5.94	$5.58
Low	3.56	2.19	2.31	2.98

As mandated by Congress and ordered by the Securities and Exchange Commission ("SEC"), all securities industry systems were converted from fractional to decimal (dollars and cents) pricing. The Decimals Implementation Plan for the Equities and Options Market submitted to the SEC stipulated that the conversion for all securities occur by April 9, 2001. Along with most stocks listed on the NYSE, the Company's stock was converted on January 29, 2001.

Item 6. ***Selected Financial Data***

Financial Highlights

The following selected consolidated financial data should be read in conjunction with Part II, Item 7.

	Years Ended				
	June 28, 1997	June 27, 1998	July 3, 1999	June 30, 2000	June 29, 2001
	(in millions, except per share and employee data)				
Revenues, net	$4,177.9	$3,541.5	$2,767.2	$1,957.2	$1,953.4
Gross profit (loss)	650.3	100.1	(2.8)	9.6	207.7
Income (loss) from continuing operations	267.6	(290.2)	(472.5)	(329.5)	(87.1)
Per share income (loss) from continuing operations:					
Basic	$ 3.07	$ (3.32)	$ (5.28)	$ (2.69)	$ (.52)
Diluted	$ 2.86	$ (3.32)	$ (5.28)	$ (2.69)	$ (.52)
Working capital	$ 364.2	$ 463.5	$ 133.5	$ 6.9	$ 45.4
Total assets	$1,307.1	$1,442.7	$1,022.0	$ 613.0	$ 507.7
Long-term debt	$ —	$ 519.2	$ 534.1	$ 225.5	$ 112.5
Shareholders' equity (deficiency)	$ 620.0	$ 317.8	$ (153.8)	$ (109.8)	$ 6.8
Number of employees	13,384	13,286	10,503	7,321	7,909

No cash dividends were paid for the years presented.

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During 1999 and 2000 the Company initiated significant restructuring programs (see Item 7, under the heading "Overview" and Note 8 of Notes to Consolidated Financial Statements). Also, subsequent to June 29, 2001, the Company sold the assets of its Connex and SANavigator subsidiaries (see Item 7, under the heading "Results of Operations — Discontinued Operations" and Note 10 of Notes to Consolidated Financial Statements).

Item 7. ***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.

Overview

Western Digital is a longtime leader and one of the pioneers of the data storage industry. Through significant reorganization of its hard drive business the Company has established a framework to apply its data storage core competencies to emerging markets and expand beyond the traditional market for hard drives through new business ventures and market areas, while maintaining its core business.

The hard drive industry, the Company's core and primary business, is intensely competitive and has experienced a great deal of growth, entry and exit of competitors, and technological change over recent years. This industry is characterized by short product life cycles, dependence upon highly skilled engineering and other personnel, significant expenditures for product development and recurring periods of oversupply. During 1999 and 2000 the Company initiated restructuring programs to reduce costs and improve operating efficiency of its hard drive business. During 1999, the Company combined its Personal Storage Division and Enterprise Storage Group into a single hard drive operating unit, closed its Tuas, Singapore facility and moved production of its SCSI drives to the Company's nearby manufacturing facility in Chai-Chee, Singapore. The combination resulted in a $41.0 million charge to operations. Also during 1999, the Company sold its Santa Clara disk media operations to Komag, Inc. ("Komag"), recording a charge to operations of $20.0 million. During 2000,

the Company transferred all of its hard drive production to one highly efficient manufacturing facility in Malaysia, closed its Singapore manufacturing facilities, discontinued its SCSI drive product line, closed its Rochester, Minnesota design facility, and made significant changes to its worldwide management structure and sales organization. These actions resulted in net restructuring and other charges to operations of $125.5 million.

The Company continuously evaluates opportunities to apply its data storage core competencies to emerging markets and to expand beyond traditional markets for hard drives through new business ventures meeting certain predefined criteria. The Company's new business ventures have included Connex, Inc. ("Connex"), SANavigator, Inc. ("SANavigator"), SageTree, Inc. ("SageTree"), Keen Personal Media, Inc. ("Keen PM") and Cameo Technologies, Inc. ("Cameo"). Subsequent to June 29, 2001, the Company discontinued the operations of both Connex and SANavigator, selling substantially all the assets of the two companies. The Company's other new businesses have not yet generated significant revenue and the Company continues to evaluate their progress.

Results of Operations

Summary of 1999, 2000 and 2001 Comparison

The following table sets forth, for the periods indicated, items in the Company's statements of operations expressed as a percentage of total revenue. This table and the following discussion exclude the results of the discontinued Connex and SANavigator businesses.

	Years ended		
	July 3, 1999	June 30, 2000	June 29, 2001
Revenues, net	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of revenues	100.1	99.5	89.4
Research and development	7.2	7.7	6.3
Selling, general and administrative	7.0	6.5	6.1
Restructuring charges	2.2	4.4	—
Total costs and expenses	116.5	118.1	101.8
Operating loss	(16.5)	(18.1)	(1.8)
Net interest and other income (expense)	(0.6)	0.3	(2.7)
Loss from continuing operations before income taxes	(17.1)	(17.8)	(4.5)

Income tax benefit	—	1.0	—
Loss from continuing operations	(17.1)%	(16.8)%	(4.5)%

The Company reported losses from continuing operations of $472.5, $329.5 and $87.1 million in 1999, 2000 and 2001, respectively. The 1999 loss included charges of approximately $77.0 million for incremental thin-film warranty provisions, approximately $7.5 million in Malaysian currency losses and restructuring charges of $61.0 million for the consolidation of the Company's personal storage and enterprise storage divisions and the sale of its media operation. The 2000 loss included net restructuring charges totaling $85.8 million for the closure of the Company's Singapore operations and SCSI hard drive operations. The 2000 loss also included charges to cost of revenues of $34.8 million for vendor settlements, incremental warranty, and inventory write-downs associated with exiting the SCSI hard drive product line and $37.7 million for costs to repair recalled drives. The 2001 loss included nonoperating charges of $52.4 million to adjust the carrying value of equity investments in and notes receivable from Komag, Inc. ("Komag") and accruals of contingent guarantees. Excluding the aforementioned restructuring and other charges, losses from continuing operations were $327.0, $171.2 and $34.7 million in 1999, 2000 and 2001, respectively. The decrease in losses from 1999 to 2000, excluding restructuring and special charges, was due primarily to a $107.6 million, or 27.9%, decrease in operating expenses and a $20.8 million decrease in interest and other nonoperating expense. The decrease in losses from 2000 to 2001 resulted from a $125.6 million increase in gross profit and a

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$36.1 million decrease in operating expenses, partially offset by a $5.7 million increase in interest and other nonoperating expense.

Net Revenues

Consolidated net revenues of $2.0 billion in 2000, decreased $0.8 billion or 29.3% from 1999, due to the Company's decision in the third quarter of 2000 to cease production of SCSI hard drives (1999 revenue included $435.0 million for SCSI hard drives compared to $141.8 million in 2000), a decline in the average selling prices ("ASP's") of EIDE hard drive products due to an intensely competitive market, and a decline in EIDE drive unit shipments of approximately 6%, due largely to the product recall in the first quarter of 2000.

During the first quarter of 2000, the Company announced a recall of its 6.8GB per platter series of WD Caviar® EIDE 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 production was shut down for approximately two weeks, eliminating approximately $70 million of forecasted revenue.

Consolidated net revenues in 2001 were flat with 2000, at approximately $2.0 billion. Excluding the revenue from SCSI drive sales in 2000, revenue increased $138.0 million or 7.6% in 2001. This improvement was due to an increase in EIDE drive unit shipments of approximately 19%, offset by a decline in ASP's. Revenues from new business ventures were not material for the periods presented. In 2001, the Company adopted Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which defers the recognition of revenue on sales made under certain shipping terms. The implementation of SAB 101 resulted in an increase to revenues for 2001 of $13.1 million.

Gross Profit

Gross profit (loss) was ($2.8) million, or (0.1)% of revenue in 1999, $9.6 million, or 0.5% of revenue in 2000 and $207.7 million, or 10.6% of revenue in 2001. Gross profit for 1999 included $77.0 million of special charges for incremental thin-film warranty provision related to a change in the estimated lifetime return rate applied to an installed base of products. Gross profit for 2000 included $72.5 million of special charges related to exiting the SCSI hard drive product line and the product recall. Excluding special charges, gross profit was $74.2 million, or 2.7% of revenue, and $82.1 million, or 4.2% of revenue, for 1999 and 2000, respectively. The increase in gross profit from 1999 to 2000 (excluding special charges) was primarily the result of lower manufacturing costs due to the consolidation of drive production to a single, highly utilized facility in Malaysia, offset by lower volumes and lower ASPs. The increase in gross profit from 2000 to 2001 (excluding special charges) was the result of higher volume, offset by lower ASP's, lower manufacturing costs due to 2000 expense reduction efforts and lower warranty costs due to the discontinuance of the SCSI hard drive product line in 2000 and the expiration of the warranty period for thin-film products in 2001. The net impact of SAB 101 on gross profit in 2001 was insignificant.

Operating Expenses

Research and development expense was $198.4, $150.7 and $122.5 million for 1999, 2000 and 2001, respectively. The $47.7 and $28.1 million decreases from 1999 to 2000 and from 2000 to 2001, respectively, were due to the Company's exit from SCSI hard drive production during 2000 and expense reduction efforts in its remaining hard drive operations, partially offset by increased spending in the Company's developing new business ventures.

Selling, general and administrative ("SG&A") expense was $194.4, $127.0 and $119.1 million for 1999, 2000 and 2001, respectively. The decrease of $67.4 million from 1999 to 2000 was primarily due to the Company's exit from SCSI hard drive production, expense reductions in its remaining hard drive operations, an $11.0 million accrual reduction in the fourth quarter of 2000 and the nonrecurrence of a $7.5 million charge on the terminated hedging contracts recorded in 1999. The decrease was partially offset by increased spending in the Company's developing new business ventures. The decrease of $7.9 million from 2000 to 2001 was

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primarily due to the Company's exit from SCSI hard drive production in 2000 and the expense reduction efforts in its remaining hard drive operations, partially offset by increased spending in the Company's developing new business ventures.

Interest and Other Income/ Expense, Tax Benefit and Extraordinary Item

Net interest and other (expense) income was ($15.9), $4.9 and ($53.2) million in 1999, 2000 and 2001, respectively. The $20.8 million decrease in expense in 2000 was due to a $14.8 million gain on the disposition of certain investment securities and to lower interest expense on lower average debt balances resulting from the payment in 2000 of an outstanding term loan of $50.0 million and redemptions during 2000 of the Company's 5.25% zero coupon convertible debentures (the "Debentures"), offset by a reduced amount of interest income due to lower cash and cash equivalent balances.

During the fourth quarter of 2001, the Company recorded nonoperating charges of $52.4 million to adjust the carrying value of equity investments in and notes receivable from Komag and accruals of Komag contingent guarantees. The assets were received as a component of the total consideration from the sale of the Company's disk media operations to Komag in 1999. Also in conjunction with the sale, Komag assumed certain liabilities, mainly leases related to production equipment and facilities, for which the Company remained contingently liable. Due to recent market conditions and the announcement by Komag that it would not pay its senior debt when it became due in June and an interest payment on its convertible bonds due in July, the Company recorded the charges. On August 24, 2001, Komag announced its voluntary Chapter 11 reorganization filing.

The $58.1 million increase in net interest and other expense in 2001 was due primarily to the nonrecurring charges related to Komag of $52.4 million, a $15.1 million decrease in gains from the disposition of investment securities and a reduced amount of interest income due to lower cash and cash equivalent balances, offset slightly by lower accrued interest expense due to Debenture redemptions.

The Company recorded an income tax benefit of $19.5 million in 2000 to adjust its current and deferred tax accruals. The accruals were previously established over time and primarily related to unremitted income of foreign subsidiaries. However, due to the significant increase of net operating loss carryforwards in recent years and reevaluation of the accruals after the substantial international restructurings in 2000, the Company believed the accruals were no longer necessary. In 1999 and 2001, no tax benefit was recorded because additional loss carrybacks were not available and management believed it was "more likely than not" that the deferred tax benefits generated would not be realized (see Note 5 of Notes to Consolidated Financial Statements).

During 2000, the Company issued 26.7 million shares of common stock in exchange for $735.6 million in face value of its convertible debentures (with a book value of $284.1 million). During 2001 the Company issued 16.0 million shares of common stock in exchange for $295.7 million in face value of its convertible debentures (with a book value of $120.3 million). These redemptions were private, individually negotiated non-cash transactions with certain institutional investors. As a result of the redemptions, the Company recognized extraordinary gains of $166.9 million and $22.4 million in 2000 and 2001, respectively.

Discontinued Operations

Subsequent to June 29, 2001, the Company decided to discontinue the operations of Connex and SANavigator and sold substantially all of the assets of these two businesses. Accordingly, the operating results of Connex and SANavigator have been segregated from continuing operations and reported separately on the statements of operations as discontinued operations for all periods presented.

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Liquidity and Capital Resources

The Company had cash and cash equivalents of $184.0 million at June 30, 2000 and $167.6 million at June 29, 2001. Net cash used for continuing operations was $126.7 million during 2000 as compared to $71.3 million during 2001. The decrease in cash used for continuing 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 continuing operating results, net of non-cash items, of $204.3 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 2000 of the Company's SCSI drive product line and the inclusion in 2000 of significant charges relating to the product recall. The improved operating results of the hard drive business were offset somewhat by increased spending on continuing new business ventures. Cash used to fund net operating asset growth for continuing operations increased in 2001 by $148.9 million due primarily to the impact in the prior year of the product recall on net operating assets. Specifically, there was a sharp contraction during 2000 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 17 days during 2000, and another 6 days during 2001.

	1999	2000	2001
Cash Conversion Cycle:			
Days Sales Outstanding	44	28	25
Days Inventory Outstanding	22	23	18
Days Payables Outstanding	(50)	(52)	(50)
	16	(1)	(7)

The decrease in the cash conversion cycle from 1999 to 2000 was due primarily to a reduction in DSO's, due in large part to the product recall during the first quarter of 2000 and a sustained improvement in the linearity of shipments during the remainder of 2000. The decrease from 2000 to 2001 was due to a reduction in DSO's and DIO's, due primarily to improved sales and production linearity, offset partially by a slight decrease in DPO's. The Company seeks to maintain a negative cash conversion cycle.

Other uses of cash during 2000 included the repayment of bank debt of $50.0 million, cost-method investments of $12.9 million and net capital expenditures of $21.4 million. Other sources of cash during 2000 included proceeds of $111.8 million received upon issuance of 24.6 million shares of the Company's stock

under the Company's equity facility, $10.0 million received by SageTree upon issuance of preferred stock, $6.2 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases, and $66.8 million received from sales of real property.

Other uses of cash during 2001 included net capital expenditures of $50.7 million, primarily to upgrade the Company's hard drive production capabilities and for normal replacement of existing assets. Other sources of cash during 2001 included proceeds of $15.0 million received upon the sale of marketable equity securities, $110.5 million received upon issuance of 23.5 million shares of the Company stock under the Company's equity facility, $7.1 million received in connection with the stock option exercises and Employee Stock Purchase Plan purchases and $5.0 million received by Keen upon issuance of an investor note.

The Company anticipates that capital expenditures in 2002 will not be more than $65.0 million and will relate to normal replacement of existing assets.

During 1998 the Company issued zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures"). The Debentures are subordinated to all senior debt; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and at the holder's option, will be repurchased by the Company, 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 repurchase. 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 Debentures are convertible into shares of the Company's common stock at the rate of 14.935 shares per $1,000 principal amount at maturity. The principal amount at maturity of the Debentures when issued was $1.3 billion. During 2000, the Company issued 26.7 million shares of common stock in exchange for Debentures with a book value of $284.1 million and an aggregate principal amount at maturity of $735.6 million. During 2001, the Company issued 16.0 million shares of common stock in exchange for Debentures with a book value of $120.3 million and an aggregate principal amount at maturity of $295.7 million. These redemptions were private, individually negotiated transactions with certain institutional investors and resulted in extraordinary gains of $166.9 million and $22.4 million during 2000 and 2001, respectively. As of June 29, 2001, the book value of the remaining outstanding Debentures was $112.5 million, the aggregate principal amount at maturity was $265.9 million and the market value was $85.1 million.

During 2001 the Company entered into a three-year Senior Credit Facility for its hard drive business, Western Digital Technologies, Inc. ("WDT"), replacing a previous facility that had matured on March 31, 2000. The Senior Credit Facility 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 statement (the "equity facility"), the Company may issue shares of common stock to institutional investors for cash. Shares sold under the facility are at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25%. During 2000, the Company issued 24.6 million shares of common stock under the equity facility for net cash proceeds of $111.8 million. During 2001, the Company issued 23.5 million shares of common stock under the equity facility for net cash proceeds of $110.5 million. As of June 29, 2001, the Company had $167.7 million remaining under the equity facility.

The Company may continue to incur operating losses during 2002. However, at June 29, 2001, the Company had a cash and cash equivalent balance of $167.6 million, working capital of $45.4 million and shareholders' equity of $6.8 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 Rochester design center, the disposal of its Connex and SANavigator businesses, and an overall reduction in worldwide headcount. In addition, the Company had the following additional sources of liquidity available as of September 26, 2001; $167.7 million remaining available under the equity facility and a Senior Credit Facility providing up to $125 million in revolving credit (subject to a borrowing base calculation).

Based on the above factors, the Company believes its current cash and cash equivalent balances and its existing equity and credit facilities 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 related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly."

New Accounting Pronouncements

During July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Effective June 30, 2001, the Company adopted SFAS 141. SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The adoption of SFAS 141 did not have a material impact on the Company's financial position or results of operations.

SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment. The Company is required to adopt SFAS 142 on June 29, 2002. However, goodwill and intangible assets acquired after June 30, 2001 are subject to the amortization provisions of SFAS 142. The Company does not expect the adoption of SFAS 142 to have a material impact on the Company's financial position or results of operations.

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 experienced. 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.

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Our average selling prices are declining.

We expect that our average selling prices for hard 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 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 softening 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.

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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 2001, sales to our top 10 customers accounted for approximately 60% 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 with our enterprise hard drive product line early in the third quarter of 2000 and is one of the factors which led to our decision to exit the enterprise hard drive market.

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 may 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. A significant disruption in Komag's ability to manufacture and supply us with media could harm our operating results. Subsequent to June 29, 2001, Komag announced the voluntary filing for Chapter 11 reorganization. Komag further announced that it expects to continue its operations during the Chapter 11 process.

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.

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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 or the geographic area in which it is located 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 takes us into new markets.

We are 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.

We have developed technologies and services for integrating high-quality digital video into everyday computing through our Cameo 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 is no assurance that the market for these products will materialize or that the products we produce will be acceptable to that market.

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

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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 difficult for us to match our production plans to customer demands. In addition, our quarterly projections and results may be subject to significant fluctuations as a result of a number of other factors including:

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

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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.

Power outages resulting from energy shortages in California may have an adverse impact on our facilities located in California.

We conduct substantial operations at our headquarters located in Lake Forest, California and at our facilities located in San Jose, California and Irvine, California. We rely on a continuous power supply in order to conduct those operations. California's current energy crisis could disrupt our operations and increase our expenses. In the event of an acute power shortage, that is, when energy reserves for the state fall below 1.5%, California has on some occasions implemented, and may in the future implement, rolling blackouts across the state. Although the Governor and state legislators are working to prevent them in the future, and although the Company has back-up energy reserves to last a short period, rolling blackouts could interrupt our power supply and might temporarily render us unable to continue operations at our California facilities. Any such interruption in our ability to continue our operations at our California facilities could delay the development of products or disrupt communications with our customers, suppliers or manufacturing operations, either of which could harm our business and results of operations. In addition, if wholesale prices for electricity continue to increase, our operating expenses would likely increase which might negatively affect our operating results.

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Item 7A. ***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 for entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. To date, 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. The imposition of exchange controls by the Malaysian government resulted in a $7.5 million realized loss on terminated hedging contracts in the first quarter of 1999. 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 June 29, 2001, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	June 29, 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	—

In 1999, 2000, and 2001 total realized transaction and forward exchange contract currency gains and losses (excluding the $7.5 million realized loss on the Malaysian Ringgits realized in 1999), 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 June 29, 2001, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately $85.1 million, compared to the related book value of $112.5 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 a note receivable from another company that carries 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.

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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 owns approximately 1.2 million shares of Vixel common stock. As of June 29, 2001, the market value of the Vixel shares was $3.1 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 June 29, 2001, a $3.1 million total accumulated unrealized gain has 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, the market value of the shares had declined from $3.1 million as of June 29, 2001 to $2.4 million as of August 17, 2001. Due to market fluctuations, an additional decline in the stock's fair market value could occur.

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Item 8. ***Financial Statements and Supplementary Data***

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INDEPENDENT AUDITORS' REPORT

The Board of Directors

Western Digital Corporation:

We have audited the consolidated financial statements of Western Digital Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Digital Corporation and subsidiaries as of June 30, 2000 and June 29, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 29, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of revenue recognition with respect to certain sales commencing on July 1, 2000.

KPMG LLP

Orange County, California

July 25, 2001, except as to Notes 4 and 10,
which are as of September 21, 2001

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WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years ended		
	July 3, 1999	June 30, 2000	June 29, 2001
Revenues, net (Notes 1 and 9)	$2,767,206	$1,957,199	$1,953,392
Costs and expenses:			
Cost of revenues (Note 8)	2,770,054	1,947,594	1,745,654
Research and development	198,386	150,658	122,514
Selling, general and administrative	194,358	126,986	119,121
Restructuring charges (Note 8)	61,000	85,837	—
Total costs and expenses	3,223,798	2,311,075	1,987,289
Operating loss	(456,592)	(353,876)	(33,897)
Net interest and other income (expense) (Note 2)	(15,898)	4,874	(53,195)
Loss from continuing operations before income taxes, extraordinary gains, and cumulative effect of change in accounting principle	(472,490)	(349,002)	(87,092)
Income tax benefit (Note 5)	—	19,500	—
Loss from continuing operations before extraordinary gains and cumulative effect of change in accounting principle	(472,490)	(329,502)	(87,092)
Loss from discontinued operations (Note 10)	(20,200)	(25,413)	(32,667)
Extraordinary gains from redemption of debentures (Note 3)	—	166,899	22,400
Cumulative effect of change in accounting principle (Note 1)	—	—	(1,504)
Net loss	$ (492,690)	$ (188,016)	$ (98,863)
Basic and diluted loss per common share:			
Loss from continuing operations before extraordinary gains and cumulative effect of change in accounting principle	$ (5.28)	$ (2.69)	$ (.52)
Discontinued operations	(.23)	(.20)	(.19)
Extraordinary gains	—	1.36	.13
Cumulative effect of change in accounting principle	—	—	(.01)
	$ (5.51)	$ (1.53)	$ (.59)
Common shares used in computing per share amounts:			
Basic and diluted	89,478	122,624	168,715

See notes to consolidated financial statements.

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WESTERN DIGITAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2000	June 29, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 184,021	$ 167,582
Accounts receivable, less allowance for doubtful accounts of $13,261 in 2000 and $13,298 in 2001	148,916	127,767
Inventories (Note 2)	83,709	78,905
Prepaid expenses and other assets	32,719	11,455
Total current assets	449,365	385,709
Property and equipment at cost, net (Note 2)	98,360	106,166
Other assets, net (Note 8)	65,227	15,777
Total assets	$ 612,952	$ 507,652
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 264,476	$ 224,544
Accrued compensation	14,559	11,778
Accrued warranty	40,354	30,943
Other accrued expenses	121,713	70,963
Net liabilities of discontinued operations (Note 10)	1,358	2,118
Total current liabilities	442,460	340,346
Other liabilities	44,830	38,629
Convertible debentures (Note 3)	225,496	112,491
Minority interest	10,000	9,383
Commitments and contingent liabilities (Notes 3, 4 and 8)		
Shareholders' equity (deficiency) (Notes 2 and 6):		
Preferred stock, $.01 par value; Authorized — 5,000 shares; Outstanding — None		
Common stock, $.01 par value; Authorized — 225,000 shares; Outstanding — 153,335 shares in 2000 and 192,800 in 2001	1,534	1,928
Additional paid-in capital	549,932	735,439
Accumulated deficit	(482,857)	(581,720)
Accumulated other comprehensive income (Note 1)	1,367	3,112
Deferred compensation (Note 6)	—	(3,745)
Treasury stock — common shares at cost; 9,773 shares in 2000 and 6,420 shares in 2001	(179,810)	(148,211)
Total shareholders' equity (deficiency)	(109,834)	6,803
Total liabilities and shareholders' equity (deficiency)	$ 612,952	$ 507,652

See notes to consolidated financial statements.

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WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Comprehensive Income (Loss)	Deferred Compensation	Total Shareholders' Equity (Deficiency)	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount						
Balance at June 27, 1998	101,332	$1,013	(13,039)	$(207,348)	$326,244	$ 197,849	—	—	$ 317,758	$(290,217)
ESPP shares issued	—	—	1,002	8,222	1,632	—	—	—	9,854	
Exercise of stock	—	—	740	6,084	(590)	—	—	—	5,494	

options										
Shares issued in connection with Connex acquisition	576	6	—	—	7,911	—	—	—	7,917	
Net loss	—	—	—	—	—	(492,690)	—	—	(492,690)	(492,690)
Unrealized loss on investment securities	—	—	—	—	—	—	(2,123)	—	(2,123)	(2,123)
Balance at July 3, 1999	101,908	$1,019	(11,297)	$(193,042)	$335,197	$(294,841)	$(2,123)	—	$(153,790)	$(494,813)
ESPP shares issued	—	—	1,236	10,660	(5,622)	—	—	—	5,038	
Exercise of stock options			288	2,572	(1,427)	—	—	—	1,145	
Shares issued in debenture redemptions	26,725	268	—	—	109,841	—	—	—	110,108	
Shares issued in equity facility sales	24,611	246	—	—	111,556	—	—	—	111,803	
Other shares issued	91	1	—	—	387	—	—	—	388	
Net loss	—	—	—	—	—	(188,016)	—	—	(188,016)	(188,016)
Unrealized gain on investment securities	—	—	—	—	—	—	3,490	—	3,490	3,490
Balance at June 30, 2000	153,335	$1,534	(9,773)	$(179,810)	$549,932	$(482,857)	$ 1,367	—	$(109,834)	$(184,526)
ESPP shares issued	—	—	1,199	11,232	(6,780)	—	—	—	4,452	
Exercise of stock options			854	8,546	(5,885)	—	—	—	2,661	
Shares issued in debenture redemption	15,970	159	—	—	95,315	—	—	—	95,474	
Shares issued in equity facility sales	23,495	235	—	—	110,239	—	—	—	110,474	
Issuance of restricted stock awards	—	—	1,300	11,821	(7,382)	—	—	(4,439)	—	
Amortization of deferred compensation	—	—	—	—	—	—	—	694	694	
Net loss	—	—	—	—	—	(98,863)	—	—	(98,863)	(98,863)
Unrealized gain on investment securities	—	—	—	—	—	—	1,745	—	1,745	1,745
Balance at June 29, 2001	192,800	$1,928	(6,420)	$(148,211)	$735,439	$(581,720)	$ 3,112	$(3,745)	$ 6,803	$ (97,118)

See notes to consolidated financial statements.

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WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended		
	July 3, 1999	June 30, 2000	June 29, 2001
Cash flows from operating activities			
Net loss	$(492,690)	$(188,016)	$ (98,863)
Adjustments to reconcile net loss to net cash used for operating activities of continuing operations:			
Extraordinary gains (Note 3)	—	(166,899)	(22,400)
Loss from discontinued operations (Note 10)	20,200	25,413	32,667
Depreciation and amortization	131,066	78,283	51,905
Interest on convertible debentures	24,956	15,447	7,483
Non-cash portion of restructuring charges (Note 8)	42,386	56,301	—
Investment gains (Note 2)	—	(14,767)	—
Other non-cash charges (Note 2)	—	—	39,283
Changes in assets and liabilities:			
Accounts receivable	107,693	124,649	31,149
Inventories	22,069	46,639	1,804
Prepaid expenses and other assets	(9,823)	5,376	(134)
Accrued warranty	31,052	(3,099)	(18,095)
Accounts payable, accrued compensation and accrued expenses	(5,233)	(104,911)	(90,463)

Other	(436)	(1,137)	(5,685)
Net cash used by continuing operations	(128,760)	(126,721)	(71,349)
Cash flows from investing activities			
Capital expenditures, net	(106,400)	(21,442)	(50,683)
Proceeds from sales of property and equipment	—	66,756	—
Other investment activity	—	(12,867)	14,979
Net cash provided by (used for) investing activities of continuing operations	(106,400)	32,447	(35,704)
Cash flows from financing activities			
Proceeds from ESPP shares issued and stock option exercises	15,348	6,183	7,113
Debt issuance costs	(2,925)	—	—
Repayment of bank debt (Note 3)	—	(50,000)	—
Common stock issued for cash (Note 6)	—	111,803	110,474
Proceeds from minority investment in SageTree (Note 1)	—	10,000	—
Proceeds from subsidiary investor note	—	—	5,000
Net cash provided by financing activities of continuing operations	12,423	77,986	122,587
Cash used for discontinued operations (Note 10)	(10,946)	(25,838)	(31,973)
Net decrease in cash and cash equivalents	(233,683)	(42,126)	(16,439)
Cash and cash equivalents at beginning of year	459,830	226,147	184,021
Cash and cash equivalents at end of year	$ 226,147	$ 184,021	$167,582

See notes to consolidated financial statements.

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WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Western Digital Corporation (“Western Digital” or the “Company”) has prepared its consolidated financial statements in accordance with accounting principles generally accepted in the United States and has adopted accounting policies and practices which are generally accepted in the industry in which it operates. Following are the Company’s significant accounting policies:

Fiscal Year

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. The 1999, 2000 and 2001 fiscal years ended on July 3, June 30, and June 29, respectively, and consisted of 52 weeks for the fiscal years 2000 and 2001, and 53 weeks for the fiscal year 1999. 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.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounts of foreign subsidiaries have been remeasured using the U.S. dollar as the functional currency. As such, foreign exchange gains or losses resulting from remeasurement of these accounts are reflected in the results of operations. These foreign exchange gains and losses were immaterial to the consolidated financial statements. Monetary and nonmonetary asset and liability accounts have been remeasured using the exchange rate in effect at each year end and using historical rates, respectively. Income statement accounts have been remeasured using average monthly exchange rates.

Cash Equivalents

The Company’s cash equivalents represent highly liquid investments, primarily money market funds and commercial paper, with original maturities of three months or less.

Concentration of Credit Risk

The Company designs, develops, manufactures and markets hard drives to personal computer manufacturers, resellers and retailers throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral. The Company maintains reserves for potential credit losses, and such losses have historically been within management's expectations. The Company also has cash equivalent policies that limit the amount of credit exposure to any one financial institution or investment instrument, and require that investments be made only with financial institutions or in investment instruments evaluated as highly credit-worthy.

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Inventory Valuation

Inventories are valued at the lower of cost or net realizable value. Cost is on a first-in, first-out basis for raw materials and is computed on a currently adjusted standard basis (which approximates first-in, first-out) for work in process and finished goods.

The Company maintains a base stock of two to three weeks of current finished goods inventory for certain key original equipment manufacturer ("OEM") customers in facilities located adjacent to their operations. Inventory at these locations usually includes minor product customizations (such as labeling) for the related OEM. If subsequent to its initial order the OEM changes its requirements, inventory held at these facilities can generally be sold to other OEM's or distributors as is or with minor modifications (such as a change in labeling) at little or no additional cost.

Property and Equipment

The cost of property and equipment is depreciated over the estimated useful lives of the respective assets. Depreciation is computed on a straight-line basis. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms.

Intangible Assets

Intangible assets are included in other assets and amortized over their expected useful lives or the lives of the related products. The Company reviews identifiable intangibles and other long-lived assets for impairment whenever events or circumstances indicate the carrying amounts may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized (See Note 1, New Accounting Pronouncements).

Revenue Recognition

The Company generally recognizes revenue at the time of shipment, net of pricing adjustments and estimated sales returns. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements". The Company adopted SAB 101 during its quarter ended June 29, 2001. As a result, the Company changed its revenue recognition policy effective July 1, 2000 to recognize revenue on certain product shipments upon delivery rather than shipment. The accounting change resulted in an increase to revenues for 2001 of $13.1 million, of which $16.9 million had been recognized in 2000 and $3.8 million will be recognized in 2002. The cumulative effect on prior years of this accounting change was $1.5 million and had an immaterial impact on reported operating losses in 2001.

In accordance with standard industry practice, the Company's agreements with certain resellers provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving items. Either party may terminate these agreements upon written notice. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory. The Company recognizes revenue at the time of shipment on sales to resellers who have inventory repurchase agreements due to the Company's ability to reasonably estimate future returns as well as the historically low levels of actual repurchases. Revenue recognized on sales to resellers with inventory repurchase agreements was $841, $683 and $806 million for fiscal years 1999, 2000 and 2001, respectively. Repurchases of inventory under such agreements were not material in 1999, 2000 and 2001.

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Warranty

The Company records an accrual for estimated warranty costs when revenue is recognized. Warranty covers cost of repair or replacement of the hard drive and the warranty periods range from 1 to 3 years for all hard drives, except enterprise drives, which had a warranty period of 5 years. The Company has comprehensive processes with which to estimate accruals for warranty, which include specific detail on hard drives in the field by product type, historical field return rates and costs to repair. Although the Company believes that it has the continued ability to reasonably estimate warranty reserves, unforeseeable changes in factors used to estimate the accrual for warranty could occur. These unforeseeable changes could cause a material change in the Company's warranty accrual estimate. Such a change would be recorded in the period in which the change was identified.

The Company transitioned from thin-film to magnetoresistive head technology in its desktop product line during 1998. Due to the expiration of the warranty period for the thin-film products during 2001 and to the discontinuance of its SCSI drive product line during 2000, warranty accruals decreased significantly from 2000 to 2001.

Advertising Expense

Advertising costs are expensed as incurred. Selling, general and administrative expenses of the Company include advertising costs of $14.3, $9.0 and $7.4 million in 1999, 2000 and 2001, respectively.

Income Taxes

The Company accounts for income taxes using the liability method under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). This method generally provides that deferred tax assets and liabilities be recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss ("NOL") carryforwards. The Company records a valuation allowance for certain temporary differences for which it is more likely than not that it will not receive future tax benefits. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the consolidated financial statements in the period of enactment (See Note 5).

Per Share Information

The Company computes basic loss per share using the net loss and the weighted average number of common shares outstanding during the period. Dilutive loss per share is computed using the net loss and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive common shares include outstanding employee stock options, employee stock purchase plan shares and common shares issuable upon conversion of the convertible debentures. The effects of these items were not included in the computation of diluted loss per share for each period presented as their effect would have been anti-dilutive.

As of July 3, 1999, June 30, 2000 and June 29, 2001, 17.8 million, 20.9 million shares and 23.3 million shares, respectively, relating to the possible exercise of outstanding stock options were not included in the computation of diluted loss per share. Also, for the same periods, an additional 19.4 million, 8.4 million and 4.0 million shares, respectively, issuable upon conversion of the 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.

Stock-Based Compensation

The Company applies the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes the financial accounting and reporting standards for stock-based compensation plans. The Company elected to continue accounting for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB Opinion No. 25"), as SFAS 123 permits, and to follow the pro forma net income (loss), pro forma earnings (loss) per share, and stock-based compensation plan disclosure requirements set forth in SFAS 123. (See Note 6).

During 2001, the Company adopted 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. The adoption of FIN 44 did not result in a material impact to the Company's consolidated financial position, results of operations or liquidity.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value for all periods presented because of the short-term maturity of these financial instruments. The fair value of the Company's convertible debentures is estimated by reference to quoted information from market sources. At June 30, 2000, the market value of the Company's convertible debentures was approximately $111.6 million, compared to the related carrying value of $225.5 million. At June 29, 2001, the market value of the Company's convertible debentures was approximately $85.1 million, compared to the related carrying value of $112.5 million. The carrying amounts of all other financial instruments in the consolidated balance sheets approximate fair values.

Investments

The Company's investments in unrestricted, marketable equity securities have been classified as "available for sale", are included in other current assets, and are carried at fair value. The classification of a security is determined at the acquisition date and reviewed periodically. The Company reviews, on a monthly basis, the fair market value of the available for sale securities and records an unrealized gain or loss resulting from the difference between the fair market value at the time of the acquisition and the fair market value on the measurement date. The unrealized gains or losses are shown as a component of accumulated comprehensive income (loss) in shareholders' equity (deficiency). Securities that are not classified as "available for sale" are carried at cost. The Company periodically reviews its cost-basis investments for instances where fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value. The amount of any write-down would be included in the results of operations as a realized loss. Realized gains and losses resulting from the sale of securities are determined using the specific identification method.

The Company received approximately 10.8 million shares of Komag common stock during April 1999, upon the sale of its disk media operations to Komag (See Note 8). The common stock had a fair market value of $34.9 million at the time of the transaction. 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 were restricted to sale until 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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Standards No. 115, "Investments in Certain Debt and Equity Securities" ("SFAS 115"). These shares were marked to market using published closing prices of Komag stock on a monthly basis and a related accumulated unrealized gain or loss was included in accumulated other comprehensive income (loss). During the fourth quarter of 2001, due to market conditions of Komag's common stock and a public announcement by Komag that it would not make current payments on its debt, the decline in market value of the 4.8 million shares held as current and the remaining 1.1 million shares held as long term was deemed "other than temporary" and an impairment loss of $19.2 million was recognized.

The Company owns approximately 1.2 million shares of Vixel Corporation ("Vixel") common stock. The Company has identified these shares as "available for sale" under the provisions of SFAS 115. At June 29, 2001 an unrealized gain of $3.1 million is included in accumulated other comprehensive income (loss). The aggregate book value of the shares was $3.1 million as of June 29, 2001, and the investment was classified as current.

Other Comprehensive Income (Loss)

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), beginning with the Company's fourth quarter of 1999. Prior to the fourth quarter of 1999, the Company did not possess any components of other comprehensive income as defined by SFAS 130. Adjustments to net income to arrive at other comprehensive income (loss) include revenue, expenses, gains and losses that are recorded as an element of shareholders' equity (deficiency) but are excluded from net income (loss). While SFAS 130 establishes new rules for the reporting and display of comprehensive income (loss), SFAS 130 has no impact on the Company's net loss or total shareholders' equity (deficiency). The Company's components of other comprehensive income (loss) are unrealized gains and losses on marketable securities categorized as "available for sale" under SFAS 115.

Minority Interest in Subsidiary

In June 2000, the Company's subsidiary, SageTree, Inc. ("SageTree"), received cash proceeds of $10.0 million from NCR Corporation in exchange for a minority voting interest in SageTree at June 30, 2000. The Company reflects the portion of the earnings or losses of SageTree, which are applicable to the minority interest as an adjustment to minority interest on the consolidated balance sheets, and as a component of other income (expense) on the consolidated statements of operations. The amount of minority interest in SageTree's losses was not material to the Company's consolidated financial statements for the years ended June 30, 2000 and June 29, 2001.

Foreign Exchange Contracts

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 increase 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. In response to the Company's underlying foreign currency exposures, the Company may, from time to time, adjust its foreign currency hedging position by taking out additional contracts or by terminating or offsetting existing foreign currency forward exchange contracts.

During 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by Statement of Financial

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 Company had outstanding forward exchange contracts with commercial banks with nominal values of $66.4, $13.5 and $2.8 million, at July 3, 1999, June 30, 2000 and June 29, 2001, respectively. Upon adoption of SFAS 133, the Company elected not to designate these forward exchange contracts as accounting hedges and any changes in fair value have been recorded through the results of operations for the year ended June 29, 2001. Such changes in fair value were minor for the year ended June 29, 2001. Unrealized gains and losses on outstanding forward exchange contracts and foreign currency transactions are recorded in the consolidated statements of operations at each quarter end and were not material to the consolidated financial statements as of and for the year ended June 30, 2000. For the year ended July 3, 1999, the total net loss on foreign currency transactions and forward exchange contracts was $10.3 million. Of

this amount, a realized loss of $7.5 million on terminated hedging contracts was recorded due to the imposition of exchange controls by the Malaysian government. Historically, the Company has focused on hedging its foreign currency risk related to the Malaysian Ringgit, the Singapore Dollar and the British Pound. 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 discontinued its hedging program related to the Singapore Dollar.

Use of Estimates

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Reclassifications

Certain prior years' amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

During July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Effective June 30, 2001, the Company adopted SFAS 141. SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The adoption of SFAS 141 did not have a material impact on the Company's financial position or results of operations.

SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment. The Company is required to adopt SFAS 142 on June 29, 2002. However, goodwill and intangible assets acquired after June 30, 2001 are subject to the amortization provisions of SFAS 142. The Company does not expect the adoption of SFAS 142 to have a material impact on the Company's financial position or results of operations.

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WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2. Supplemental Financial Statement Data (in thousands)

	1999	2000	2001
Net Interest and Other Income (Expense)			
Interest income	$ 16,906	$ 9,260	$ 7,274
Interest expense	(32,804)	(19,153)	(8,943)
Realized investment gains (losses)	—	14,767	(337)
Minority interest in losses of consolidated subsidiary	—	—	1,215
Other charges(1)	—	—	(52,404)
Net interest and other income (expense)	$(15,898)	$ 4,874	$ (53,195)
Cash paid for interest	$ 4,819	$ 2,100	$ 568
Inventories			
Finished goods		$ 68,080	$ 48,123
Work in process		11,253	8,888
Raw materials and component parts		4,376	21,894
		$ 83,709	$ 78,905
Property and Equipment			
Land and buildings		$ 53,373	$ 54,060
Machinery and equipment		309,689	305,966
Furniture and fixtures		9,170	7,219
Leasehold improvements		16,858	10,818
		389,090	378,063
Accumulated depreciation and amortization		(290,730)	(271,897)
Net property and equipment		$ 98,360	$ 106,166
Supplemental disclosure of non-cash investing and financing activities:			
Proceeds from sale of Santa Clara disk media operations	$ 77,100		

Common stock issued and liabilities assumed in connection with acquisition of Connex	$ 10,000		
Common stock issued for redemption of convertible debentures		$ 110,108	$ 95,474
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs		$ 277,008	$ 117,874
Settlement of accounts payable by transfer of cost method investments		$ 26,242	
Transfer of Service Center assets in exchange for promissory note		$ 11,655	

(1) During the fourth quarter of 2001, as a result of Komag's public announcement regarding its intentions to not pay certain debt and interest amounts when due and market conditions of its common stock, the carrying amount of the equity investment in Komag was determined to have suffered an "other than temporary" decline in market value and the Company recorded nonoperating charges totaling $52.4 million to adjust the carrying values of the equity investment and the notes receivable from Komag and to accrue for the contingent guarantees of the Komag equipment and facility leases. On August 24, 2001, Komag announced its voluntary Chapter 11 reorganization filing.

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Note 3. Long-Term Debt

Line of Credit

During 2001, the Company's hard drive business, Western Digital Technologies ("WDT"), entered into a three-year Senior Credit Facility 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 its 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. The Senior Credit facility replaced a previous facility that matured on March 31, 2000. Outstanding borrowings at July 3, 1999 from this previous facility amounted to $50.0 million and were paid in full during 2000. As of the date hereof, there were no borrowings under the Senior Credit Facility.

Convertible Debentures

During 1998 the Company issued zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures"). The Debentures are subordinated to all senior debt; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and at the holder's option, will be repurchased by the Company, 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 repurchase. 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 Debentures are convertible into shares of the Company's common stock at the rate of 14.935 shares per $1,000 principal amount at maturity. The principal amount at maturity of the Debentures when issued was $1.3 billion. During 2000, the Company issued 26.7 million shares of common stock in exchange for Debentures with a book value of $284.1 million and an aggregate principal amount at maturity of $735.6 million. During 2001, the Company issued 16.0 million shares of common stock in exchange for Debentures with a book value of $120.3 million and an aggregate principal amount at maturity of $295.7 million. These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors and resulted in extraordinary gains of $166.9 million and $22.4 million during 2000 and 2001, respectively. As of June 29, 2001, the book value of the remaining outstanding Debentures was $112.5 million and the aggregate principal amount at maturity was $265.9 million. Included in other assets is the amount of unamortized Debenture issuance costs. The Debenture issuance costs totaled approximately $14.5 million at origination and are being amortized over 10 years. During 2000 and 2001, approximately $7.1 million and $2.4 million, respectively, of unamortized costs were netted against the extraordinary gain in connection with the redemptions. As of June 29, 2001 the balance of unamortized Debenture issuance costs was approximately $1.9 million and is included in other assets.

Note 4. Commitments, Agreements and Contingent Liabilities

Operating Leases

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2010. Rental expense under these leases, including month-to-month rentals, was $36.2, $17.8 and $15.4 million in 1999, 2000 and 2001, respectively. Leases with terms through 2003 for which the Company is contingently liable are included in the table below. See Note 8 for further discussion.

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Future minimum rental payments under non-cancelable operating leases as of June 29, 2001 are as follows (in thousands):

2002	$19,368
2003	8,614
2004	7,116
2005	6,144
2006	6,034
Thereafter	19,855
Total future minimum rental payments	$67,131

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.

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 Superior Court for the County of Orange 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 asserted claims for unpaid wages, fraud, breach of fiduciary duty, breach of contract, and unfair business practices. The Company 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. On January 26, 2001, the Company filed a motion to dismiss plaintiffs’ complaint under Federal Rule of Civil Procedure 12(b). The Court granted the Company’s motion with leave to amend on April 2, 2001. Plaintiffs filed an amended complaint on April 6, 2001, and the Company filed a motion to dismiss the amended complaint under Federal Rule of Civil Procedure 12(b) on June 4, 2001. The Court granted the Company’s motion and dismissed plaintiffs’ amended complaint with prejudice on August 6, 2001. On September 5, 2001, the Court entered a stipulated order according to which plaintiffs agreed to waive their right to appeal the Court’s order dismissing their claims in exchange for the Company’s agreeing to waive its right to costs and fees as the prevailing party under ERISA.

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On May 22, 2001, Cambrian Consultants, Inc. (“Cambrian”) filed a complaint against the Company in the United States District Court, Central District of California. The suit alleges infringement by the Company of a Cambrian patent. On July 20, 2001, the Company filed an answer denying the allegations contained in Cambrian’s complaint and a counter claim asserting that Cambrian’s patent was invalid. The Court ordered that a Markman hearing to construe the claims of Cambrian’s patent be held on April 15, 2002 and set a briefing schedule leading up to the hearing. Both parties are engaged in discovery and expect that such discovery will continue for at least the next several months. Based on its initial investigation and the limited discovery done to date, the Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operation or liquidity.

On July 5, 2001, the Company (and its Malaysian subsidiary) filed suit against Cirrus Logic, Inc. (“Cirrus”) in California Superior Court for the County of Orange for breach of contract and other claims resulting from Cirrus’ role as a strategic supplier of read channel chips for the Company’s hard drives. The Company also stopped making payments to Cirrus for past deliveries of chips and terminated all outstanding purchase orders from Cirrus for such chips. The Company’s complaint alleges that Cirrus’ unlawful conduct caused damages in excess of any amounts that may be owing on outstanding invoices or arising out of any alleged breach of the outstanding purchase orders. On August 20, 2001, Cirrus filed an answer and cross-complaint. Cirrus denied the allegations contained in the Company’s complaint and asserted counterclaims against the Company for, among other things, the amount of the outstanding invoices and the Company’s alleged breach of the outstanding purchase orders. The parties have begun discovery and expect that such discovery will continue for the next several months. Based on its initial investigation and the limited discovery done to date, the Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operation 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.

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Note 5. Income Taxes

The domestic and international components of net income (loss) before income taxes are as follows (in thousands):

	1999	2000	2001
United States	$(399,006)	$(214,316)	$(114,817)
International	(93,684)	6,800	15,954
Net loss excluding income taxes	$(492,690)	$(207,516)	$ (98,863)

The components of the provision (benefit) for income taxes are as follows (in thousands):

	1999	2000	2001
Current			
United States	$(3,519)	$(15,302)	$(1,800)
International	3,352	2,623	1,620
State	167	179	180
	—	(12,500)	—
Deferred, net	—	(7,000)	—
Provision (benefit) for income taxes	$ —	$(19,500)	$ —

The tax benefits associated with employee exercises of non-qualified stock options, disqualifying dispositions of stock acquired with incentive stock options, and disqualifying dispositions of stock acquired under the employee stock purchase plan reduced taxes currently payable. However, no tax benefits were recorded to additional paid-in capital in 1999, 2000 and 2001 because their realization was not more likely than not to occur and, consequently, a valuation allowance was recorded against the entire benefit.

During 2000, the Company reversed $19.5 million of tax accruals and certain deferred tax amounts. These accruals were previously established over time and primarily related to unremitted income of foreign subsidiaries. However, based upon a review of the Company's tax positions after the substantial international operations restructurings in 2000, and due to the significant balances of net operating losses in recent years, the Company believed these accruals were no longer necessary.

Income tax payments amounted to $5.5 million, $4.6 million and $1.5 million in 1999, 2000 and 2001, respectively.

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Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities at June 30, 2000 and June 29, 2001 are as follows (in thousands):

	2000	2001
Deferred tax assets:		
NOL carryforward	$ 309,315	$ 340,150
Business credit carryforward	35,374	42,680
Reserves and accrued expenses not currently deductible	98,695	101,189
All other	4,274	7,909

	447,658	491,928
Valuation allowance	(447,658)	(491,928)
Total deferred tax assets	$ —	$ —
Deferred tax liabilities:		
Unremitted income of foreign subsidiaries	$ 7,995	$ 8,429
All other	4,146	1,333
Total deferred tax liabilities	$ 12,141	$ 9,762

Reserves and accrued expenses not currently deductible include the following:

	2000	2001
Sales related reserves and adjustments	$49,487	$ 46,263
Accrued compensation and benefits	10,232	5,841
Inventory reserves and adjustments	2,675	3,552
Other accrued liabilities	36,301	45,533
Total deferred tax assets	$98,695	$101,189

SFAS 109 requires deferred taxes to be determined for each tax paying component of an enterprise within each tax jurisdiction. The deferred tax assets indicated above are attributable primarily to tax jurisdictions where a history of earnings has not been established. The taxable earnings in these tax jurisdictions are also subject to volatility. Therefore, the Company believes a valuation allowance is needed to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Reconciliation of the United States Federal statutory rate to the Company's effective tax rate is as follows:

	1999	2000	2001
U.S. Federal statutory rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net	0.0	0.0	0.2
Tax rate differential on international income	0.9	8.7	(2.6)
Effect of valuation allowance	34.1	12.5	36.4
Other	0.0	4.5	1.0
Effective tax rate	0.0%	(9.3)%	0.0%

Certain income of selected subsidiaries is taxed at substantially lower income tax rates as compared to local statutory rates. The lower rates reduced income taxes and reduced the net loss by $25.2 million ($.28 per share, diluted), $19 million ($.15 per share, diluted), and $30.0 million ($.18 per share, diluted) in 1999, 2000 and 2001, respectively. These lower rates are in effect through fiscal year 2004.

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Net undistributed earnings from international subsidiaries at June 29, 2001, on which no U.S. tax has been provided, amounted to approximately $460 million. The net undistributed earnings are intended to finance local operating requirements. Accordingly, an additional United States tax provision has not been made on these earnings.

At June 29, 2001, the Company had Federal and state net operating loss carryforwards of approximately $900 million and $386 million, respectively. In addition, the Company had various Federal and state tax credit carryforwards of approximately $42.7 million. The loss carryforwards expire in fiscal years 2008 through 2021 and the credit carryforwards begin to expire in fiscal year 2002.

Note 6. Shareholders' Equity

Equity Facility

Under an existing shelf registration ("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 2000, the Company issued 24.6 million shares of common stock under the equity facility for net cash proceeds of approximately $111.8 million. During 2001, the Company issued 23.5

million shares of common stock under the equity facility for net cash proceeds of approximately $110.5 million. As of June 29, 2001, the Company had $167.7 million remaining under the equity facility.

Stock Reserved for Issuance

The following table summarizes all shares of common stock reserved for issuance at June 29, 2001 (in thousands):

	Number of Shares
Issuable in connection with:	
Convertible debentures	3,971
Exercise of stock options, including options available for grant	44,255
Employee stock purchase plan	2,935
	51,161

Employee Stock Purchase Plan

The Company has an employee stock purchase plan ("ESPP") that operates in accordance with Section 423 of the Internal Revenue Code whereby eligible employees may authorize payroll deductions of up to 10% of their salary to purchase shares of the Company's common stock at 85% of the fair market value of common stock on the date of grant or the exercise date, whichever is less.

Approximately 2.9 million shares of common stock remain reserved for issuance under this plan. Approximately 1,002,000, 1,236,000 and 1,199,000 shares were issued under this plan during 1999, 2000 and 2001, respectively.

Stock Option Plans

Western Digital's Employee Stock Option Plan ("Employee Plan") is administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which determines the vesting provisions, the form of payment for the shares and all other terms of the options. Terms of the Employee Plan require that the exercise price of options be not less than the fair market value of the common stock on the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly

increments thereafter and have a ten-year term. As of June 29, 2001 options to purchase 7,532,746 and 13,423,861 shares of common stock were exercisable and available for grant, respectively, under this plan. Pursuant to the terms of the Employee Plan, participants are permitted to utilize previously purchased common stock as consideration to purchase additional common stock upon exercise of options or to exercise on a cashless basis.

On September 30, 1999, the Company's Board of Directors approved the Broad-Based Stock Incentive Plan (the "Broad-Based Plan") under which options to purchase shares of common stock and stock awards may be granted to employees of the Company and others. This plan is intended to qualify as "broadly-based" under the New York Stock Exchange shareholder approval policy. The Compensation Committee determines the vesting provisions and other terms of the options and stock. To date, the options granted vest either 100% one year from the date of grant or 25% every six months beginning six months from the date of grant. During 2001, the Company issued 1.3 million shares of restricted stock under the Broad-Based Plan to certain employees. The stock vests on the second and third anniversary dates of the grant provided that the recipient is still employed by the Company. The aggregate market value of the restricted stock at the dates of issuance of $4.4 million has been recorded as deferred compensation, a separate component of shareholder's equity (deficiency), and is being amortized over the three-year vesting period. As of June 29, 2001, options to purchase 3,641,118 shares of common stock were exercisable and 6,354,583 shares were available for grant as options or stock awards, under this plan.

The Company has a Stock Option Plan for Non-Employee Directors ("Director Plan") and has reserved 2.6 million shares for issuance thereunder. The Director Plan provides for initial option grants to new directors of 75,000 shares per director and additional grants of options to purchase 10,000 shares of common stock per director each year upon their reelection as a director at the annual shareholders' meeting. Terms of the Director Plan require that options have a ten-year term and that the exercise price of options be not less than the fair market value at the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. As of June 29, 2001, options to purchase 527,192 shares of common stock were exercisable and options to purchase 1,125,964 shares of common stock were available for grant.

The following table summarizes activity under the Employee, Broad-Based and Director Plans (in thousands, except per share amounts):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at June 27, 1998	12,351	$16.92
Granted	9,119	11.10
Exercised	(740)	7.30
Canceled or expired	(3,004)	23.63

Options outstanding at July 3, 1999.	17,726	13.19
Granted	13,485	3.82
Exercised	(288)	4.10
Canceled or expired	(10,022)	9.92
Options outstanding at June 30, 2000	20,901	8.83
Granted	7,843	5.45
Exercised	(854)	3.14
Canceled or expired	(4,539)	10.02
Options outstanding at June 29, 2001	23,351	$ 7.69

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WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The significant increase in the number of shares canceled or expired in 2000 was the result of terminations relating to restructuring and other attrition.

The following tables summarize information about options outstanding and exercisable under the Employee, Broad-Based and Director Plans at June 29, 2001 (in thousands, except per share amounts):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 1.44	10	0.38	$ 1.44	10	$ 1.44
1.62 – 2.81	2,623	7.75	2.75	1,810	2.76
3.25 – 4.31	2,687	5.97	3.76	1,208	3.45
4.37 – 4.56	3,327	8.45	4.47	1,339	4.45
4.68 – 5.62	1,587	8.08	5.05	384	4.94
5.81 – 6.00	4,630	9.31	6.00	332	6.00
6.12 – 8.81	3,110	5.84	7.45	2,394	7.68
8.87 – 12.87	3,450	6.36	11.88	2,535	11.88
13.50 – 48.25	1,927	6.01	24.54	1,689	25.48
Total	23,351	7.37	7.69	11,701	9.45

Some of the Company's new venture subsidiaries maintain stock option plans for their own employees and directors and for directors of the Company. The terms of these plans are similar to those of the Company's Employee Plan. These new ventures have reserved up to approximately 17% of their stock for existing and future option grants to their employees and directors.

Pro Forma Information

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123. This information is required to be determined as if the Company had accounted for its stock options (including shares issued under the Stock Option Plans, the ESPP and new venture option plans collectively called "options") granted subsequent to July 1, 1995, under the fair value method of that statement.

The fair value of options granted in 1999, 2000 and 2001 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Option Plans			ESPP Plan		
	1999	2000	2001	1999	2000	2001
Option life (in years)	5.0	4.0	2.5	2.0	2.0	2.0
Risk-free interest rate	5.75%	6.15%	4.20%	5.75%	6.15%	4.20%
Stock price volatility	.82	.83	1.05	.82	.83	1.05
Dividend yield	—	—	—	—	—	—

The following is a summary of the per share weighted average fair value of stock options granted in the years listed below:

1999	2000	2001

Options granted under the Stock Option Plans	$7.74	$2.44	$3.86
Shares granted under the ESPP Plan	$9.92	$8.77	$4.65

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The Company applies APB Opinion No. 25 in accounting for its stock option and ESPP plans and, accordingly, no compensation expense has been recognized for the options in the consolidated financial statements. Had the Company determined compensation expense based on the fair value at the grant date for its options under SFAS 123, the Company's net loss and net loss per share would have been increased to the amounts indicated below:

	Year Ended		
	July 3, 1999	June 30, 2000	June 29, 2001
Pro forma net loss (in thousands)	$(538,637)	$(227,799)	$(128,642)
Pro forma net loss per share:			
Basic and diluted	$ (6.02)	$ (1.86)	$ (0.76)

Stock Purchase Rights

In 1989, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carried one Right to Purchase Series A Junior Participating Preferred Stock (the "Right"). The Right enabled the holder, under certain circumstances, to purchase common stock of Western Digital or of an acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding common stock. On September 10, 1998 the Company's Board of Directors approved the adoption of a new Rights plan to replace the previous plan, which expired in September of 1998. The Rights under the 1998 plan were similar to the rights under the 1989 plan except they were redeemable by the Company at $.01 per Right and expired in 2008. In connection with the establishment of a holding company structure on April 6, 2001, the Company terminated the Rights under the 1998 plan and adopted a new Rights plan. The 2001 plan is similar to the terminated 1998 plan, except that the exercise price was reduced from $150.00 to $50.00 per share, and the expiration date for the 2001 Rights plan was extended to April 2011.

Note 7. Savings and Profit Sharing Plan

Effective July 1, 1991, the Company adopted a Savings and Profit Sharing Plan, the Western Digital Corporation Retirement Savings and Profit Sharing Plan ("the Plan"). The Plan includes an employee 401(k) plan. The Plan covers substantially all domestic employees, subject to certain eligibility requirements. The Company may make annual contributions to the 401(k) plan at the discretion of the Board of Directors. For 1999, 2000 and 2001 the Company made contributions to the 401(k) plan of $3.3 million, $2.3 million and $1.7 million, respectively.

Note 8. Restructurings

1999 Restructuring Actions

In January 1999, the Company initiated a restructuring program which resulted in the combination of its personal storage and enterprise storage divisions into a single hard drive operating unit. Accordingly, design, manufacturing, materials, business and product marketing resources to address both the personal storage and enterprise markets were combined. In connection with the combination, the Company's Tuas, Singapore facility was closed and production of SCSI drives was moved to the Company's facility in Chai-Chee, Singapore. This restructuring program, which was substantially completed by the end of the third quarter of 1999, resulted in a reduction of worldwide employee headcount of 934 employees, approximately 250 of which were direct and indirect labor and the remainder were management, professional and administrative personnel. A $41.0 million restructuring charge was recorded consisting of $19.6 million for the write-down of the Tuas building and equipment to its estimated fair value of $7.8 million, based on a valuation done by an

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independent party, $14.3 million for severance and other incremental costs related to the closure of the facility, $5.7 million for the write-off of duplicate warranty repair and engineering supplies and $1.4 million for renovation related costs of the Tuas facility. Of the severance and other related charges, approximately $11.0 million was paid in 1999, and the remainder was paid in 2000. The write-off of duplicate warranty repair and engineering supplies, including base replacement stock for warranty repairs and engineering materials, was necessary due to the reduced requirements of a single combined repair facility. Tuas facility renovation and related costs consisted of costs incurred to ready the facility for sale.

In April 1999, the Company completed the sale of its Santa Clara disk media operations to Komag. The components of the sale are summarized below (in millions):

Proceeds:	
Common stock of Komag, Inc.	$34.9
Note receivable	30.1
Trade receivable for certain inventory sold	12.1
	77.1
Costs:	
Equipment sold	68.3
Inventory sold	18.1
Prepaids and other related assets sold or written off	7.7
Severance and outplacement	3.0
	97.1
Restructuring charge	$20.0

The Company received, as a component of the total consideration, an unsecured note (the "Note") in the amount of $30.1 million, which was recorded in other assets. The Note matures in April 2002 and has an annual interest rate of 4.9%, compounded quarterly. The outstanding principal balance and accrued interest is due and payable in full upon maturity. The Note contains a principal and accrued interest reduction provision which is based on the excess, if any, of proceeds received upon sale of Komag stock over a predetermined floor. In conjunction with the sale of Company assets, Komag assumed certain liabilities, mainly leases related to production equipment and facilities. The Company is contingently liable for these leases. If Komag is unable to meet its payment obligations on the remaining leases, totaling approximately $9.3 million as of June 29, 2001, the Company is liable to make the payments (see Note 2).

The transaction with Komag included a three-year volume purchase agreement under which the Company must purchase a significant percentage of its media requirements from Komag. The agreement does not require the Company to purchase a fixed minimum amount of media from Komag. The Company also entered into a License Agreement and Joint Development Agreement. The License Agreement grants Komag a fully paid-up license to utilize certain of the Company's technology in the development of future media products for the Company. The Joint Development Agreement provides the basis for determining the ownership of any media manufacturing related technology developed by Komag and/or the Company in the future. There is no additional consideration related to the sale inherent in these other agreements. Therefore, no portion of the sales proceeds was allocated to them.

The April 1999 sale of the media business resulted in a reduction of employee headcount of 1,106 employees, approximately 650 of which were direct labor, with the rest being technicians, management and other professionals. Of the severance and outplacement charge of $3.0 million, approximately $1.9 million was paid in 1999, and the balance was paid in 2000. The sale of the Company's media assets to Komag and the related transition and restructuring program were substantially completed by the end of the fourth quarter of 1999.

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Following is a summary of the 1999 restructuring charges, the amounts paid and the ending accrual balances (in thousands) for the years ended July 3, 1999 and June 30, 2000:

	Accruals	Non-Cash Charges	Total Charges
Consolidation of hard drive divisions:			
Write-down of building and equipment to fair value	$ —	$19,642	$19,642
Write-off of duplicate warranty repair and engineering supplies	—	5,748	5,748
Severance and other	14,271	—	14,271
Tuas facility renovation and related costs	1,339	—	1,339
	15,610	25,390	41,000
Sale of media assets to Komag:			
Assets sold or written off, net of proceeds received	—	16,996	16,996
Severance and outplacement	3,004	—	3,004
	3,004	16,996	20,000
	18,614	$42,386	$61,000
1999 cash payments	(16,668)		
Balance at July 3, 1999	$ 1,946		

Changes during 2000 to 1999 restructuring actions:	
Cash payments	(170)
Accrual reversal	(1,776)
Balance at June 30, 2000	$ —

The accrual balance at July 3, 1999 after remaining cash obligations paid in 2000, was reversed through the restructuring charges line item on the consolidated statement of operations in 2000 (see table below).

2000 Restructuring Actions

During 2000, the Company initiated restructuring actions to improve operational efficiency and reduce operating expenses. Charges related to these restructuring actions were accrued in the periods in which executive management committed to execute such actions. The restructuring actions taken in 2000 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 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 were manufacturing employees. These employees were given legally required notification and outplacement services. Restructuring charges recorded in connection with these actions totaled $85.8 million 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 (sold for cash proceeds of approximately $29.7 million), and net lease cancellation and other costs associated with the closure 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. The restructuring effort was substantially completed by June 30, 2000. Of the charges, approximately $30.5 million was paid in 2000 and the remainder was paid in 2001.

The following table summarizes the restructuring charges, the amounts paid and the ending accrual balances (in thousands) for the years ended June 30, 2000 and June 29, 2001:

	Accruals	Non-Cash Charges	Total Charges
Consolidation of Asian operations and closure of Rochester design center:			
Fixed asset write-offs	$ —	$56,301	$56,301
Severance and outplacement	28,679	—	28,679
Lease cancellation and other (net of favorable lease settlement of $5,252)	5,733	—	5,733
	34,412	56,301	90,713
Changes to 1999 restructuring estimates:			
Gain on sale of Tuas building	—	—	(3,100)
Favorable settlement of 1999 restructuring accruals	—	—	(1,776)
		$56,301	$85,837
Cash payments during 2000	(30,529)		
Balance at June 30, 2000	$ 3,883		
Changes during 2001 to 2000 restructuring actions:			
Cash payments	(3,883)		
Balance at June 29, 2001	$ —		

Note 9. Business Segment, International Operations and Major Customer

Segment Information

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. The Company's new business ventures have included Connex, Inc. ("Connex"), SANavigator, Inc. ("SANavigator"), SageTree, Inc. ("SageTree"), Keen Personal Media, Inc. ("Keen PM"), and Cameo Technologies, Inc. ("Cameo"). Connex was formed in 1999 to design and market network attached storage products. SANavigator was formed as a subsidiary of Connex in 2001 to develop and market storage area network ("SAN") management software. SageTree was formed in 2000 to design and market packaged analytical software and related services for supply chain and product lifecycle applications. Keen PM was formed in 2000 to develop and sell interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce. Cameo was formed in 2000 to develop technologies and services for delivering broadcast-quality video content to PC users. Subsequent to June 29, 2001, substantially all of the assets of Connex and SANavigator were sold and, accordingly, their operations were discontinued (See Note 10). The Company's chief operating decision maker uses the segment information for WDT and the Company's combined new business ventures to assess performance and to determine resource allocation. The continuing separate new business venture amounts do not meet the disclosure requirements of SFAS 131 and they have been combined and presented in an "all other" category, separate from the WDT segment results.

General and corporate expenses of the Company are included in the WDT segment. Losses from discontinued operations of $25.4 million in 2000 and $32.7 million in 2001 have been excluded from the table below.

	WDT	All Other	Total
		(in thousands)	
Year ended June 30, 2000			
Revenues	$1,956,671	$ 528	$1,957,199
Restructuring charges	$ 85,837	$ —	$ 85,837
Operating loss	$ (340,348)	$(13,528)	$ (353,876)
Net loss	$ (149,115)	$(13,488)	$ (162,603)
Total assets	$ 593,412	$ 19,540	$ 612,952
Depreciation and amortization	$ 77,538	$ 745	$ 78,283
Additions to property and equipment	$ 22,562	$ 95	$ 22,657
Year ended June 29, 2001			
Revenues	$1,952,868	$ 524	$1,953,392
Operating loss	$ (3,580)	$(30,317)	$ (33,897)
Net loss	$ (35,837)	$(30,359)	$ (66,196)
Total assets	$ 495,555	$ 12,097	$ 507,652
Depreciation and amortization	$ 47,883	$ 4,022	$ 51,905
Additions to property and equipment	$ 49,261	$ 1,486	$ 50,747

International Operations

The Company's operations outside the United States include a manufacturing facility in Malaysia as well as sales offices throughout Europe and Asia. During 1999 and the first half of 2000, the Company also had manufacturing facilities in Singapore. The following table summarizes operations by geographic areas for the past three years. United States revenues to unaffiliated customers include export sales to various countries in Europe and Asia of $482.5, $546.5, and $443.3 million in 1999, 2000 and 2001, respectively.

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of $83 million, $62 million and $51 million in 1999, 2000, and 2001 respectively, have been excluded in determining operating income (loss) by geographic region.

	United States	Europe	Asia	Eliminations	Total
			(in millions)		
Year ended July 3, 1999					
Sales to unaffiliated customers	$2,001	$751	$ 15	$ —	$2,767
Transfers between geographic areas	746	1	2,607	(3,354)	—
Revenues, net	$2,747	$752	$2,622	$(3,354)	$2,767
Operating income (loss)	$ (275)	$ 7	$ (114)	$ 8	$ (374)
Identifiable assets	$ 113	$ 97	$ 390	$ (15)	$ 585
Year ended June 30, 2000					
Sales to unaffiliated customers	$1,462	$485	$ 10	$ —	$1,957
Transfers between geographic areas	479	3	1,858	(2,340)	—
Revenues, net	$1,941	$488	$1,868	$(2,340)	$1,957
Operating income (loss)	$ (296)	$104	$ (58)	$ (42)	$ (292)
Identifiable assets	$ 474	$154	$ 16	$ (31)	$ 613
Year ended June 29, 2001					
Sales to unaffiliated customers	$1,554	$397	$ 2	$ —	$1,953
Transfers between geographic areas	385	5	1,769	(2,159)	—
Revenues, net	$1,939	$402	$1,771	$(2,159)	$1,953
Operating income (loss)	$ 4	$ (98)	$ 111	$ 0	$ 17
Identifiable assets	$ 326	$ 38	$ 180	$ (36)	$ 508

Major Customer

During 1999 and 2000 sales to one customer accounted for 21% of the Company's revenues. During 2001 sales to one customer accounted for 17% of the Company's revenues and another accounted for 12% of the Company's revenues.

Note 10. Discontinued Operations

The Company acquired Connex, a San Jose-based startup company formed to develop storage systems and solutions, on February 1, 1999 for approximately $12.0 million. The purchase price included 575,662 shares of Western Digital common stock valued at $7.9 million, forgiveness of amounts advanced to Connex prior to the acquisition totaling $2.0 million and the assumption of certain liabilities of approximately $2.1 million. The acquisition was accounted for as a purchase. At the time of the acquisition, Connex was a development stage operation with no commercial products yet available for sale. Connex had, at the time of acquisition, several in-process research and development projects which were approximately 40% complete. The Company allocated $12.0 million of the purchase price as a one-time charge for in-process research and development in 1999. Connex continued the development efforts and began shipping network attached storage products during the third quarter of 2000.

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SANavigator operated as a division of Connex from its inception in November 1999 until March 22, 2001, at which time it was incorporated as a wholly owned subsidiary of Connex. SANavigator was formed to develop and market storage area network (SAN) management software and released its first product in October 2000.

On July 1, 2001, the Company decided to discontinue Connex and SANavigator. Connex and SANavigator are separate major lines of business and legal entities with separate facilities, operations, management teams, and classes of end-user customers from the Company's hard drive business. As such, the disposals have been accounted for as discontinued operations and, accordingly, the consolidated financial statements for all periods presented have been reclassified. On August 8, 2001 substantially all of the operating assets of Connex were sold to Quantum Corporation for cash proceeds of $11.0 million, and on September 21,

2001 substantially all of the operating assets of SANavigator were sold to McData Corporation for cash proceeds of $29.8 million. Approximately $4.1 million of the combined cash proceeds will be escrowed for one year pending expiration of customary indemnification periods. The transactions are expected to generate gains, which will be recognized during the first quarter of 2002, when realized. At June 29, 2001 and June 30, 2000 the net liabilities of discontinued operations consisted principally of individually immaterial amounts of inventories, fixed assets, accounts payable and accrued compensation. Combined operating results for Connex and SANavigator in 1999, 2000 and 2001 were as follows:

	Year Ended		
	July 3, 1999(1)	June 30, 2000	June 29, 2001
Revenues	$ —	$ 381	$ 557
Operating losses	$(20,200)	$(25,413)	$(32,667)

(1) 1999 operating losses include in-process research and development charges of $12.0 million.

Note 11. Quarterly Results of Operations (unaudited)

	First(1), (5)	Second(2), (5)	Third(3), (5)	Fourth(4), (5)
	(in thousands, except per share amounts)			
2000				
Revenues, net	$ 406,957	$560,174	$516,502	$473,566
Gross profit (loss)	(65,003)	20,555	12,032	42,021
Operating loss	(185,919)	(83,316)	(78,069)	(6,572)
Income (loss) from continuing operations	(191,248)	(86,344)	(64,580)	12,670
Loss from discontinued operations	(5,689)	(5,130)	(6,089)	(8,505)
Net income (loss)	(106,315)	(15,197)	(70,669)	4,165
Basic and diluted earnings (loss) per share	$ (1.11)	$ (.13)	$ (.53)	$ .03
2001				
Revenues, net	$ 424,366	$561,570	$511,723	$455,733
Gross profit	25,936	67,541	63,295	50,966
Operating income (loss)	(35,588)	1,999	985	(1,293)
Income (loss) from continuing operations	(37,220)	2,838	1,037	(53,747)
Loss from discontinued operations	(8,045)	(9,827)	(7,156)	(7,639)
Net income (loss)	(35,526)	3,587	(5,748)	(61,176)
Basic and diluted earnings (loss) per share	$ (0.24)	$ 0.02	$ (0.03)	$ (0.34)

(1) During the first quarter of 2000, the Company announced a recall of its 6.8GB per platter series of WD Caviar® 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. Revenues of approximately $100 million, which related to products shipped during the first quarter and that were recalled, were reversed in the first quarter of 2000. In addition, the Caviar product line was shut down for approximately two weeks, eliminating approximately $70 million of forecasted revenue during the quarter. Cost of revenues for the first quarter of 2000 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.

During the first quarter of 2000 the Company recorded a restructuring charge of $32.3 million related to the consolidation of the Asian operations, consisting of $14.1 million for the write-off of fixed assets no longer utilized as a result of the restructuring, $13.0 million for severance and outplacement as a result of headcount reductions from the restructuring, and lease cancellations and other costs of $5.2 million.

During the first quarter of 2000 the Company also recognized an extraordinary gain of $90.6 million for the redemption of debentures.

The first quarter of 2001 includes an extraordinary gain of $11.2 million the Company recognized for the redemption of debentures.

(2) During the second quarter of 2000, the Company continued with its restructuring actions and recorded a restructuring charge of $25.5 million related to further consolidation of the Asian operations, consisting of $14.7 million for the write-off of fixed assets, $5.8 million for lease cancellation and other costs, and $5.0 million for severance and outplacement costs.

Also during the second quarter of 2000 the Company recognized an extraordinary gain of $76.3 million relating to the redemption of debentures.

The second quarter of 2001 includes an extraordinary gain of $10.6 million the Company recognized for the redemption of debentures.

(3) The third quarter of 2000 includes a $28.0 million net restructuring charge and a special charge to cost of revenues of $34.8 million, directly resulting from the Company's exit from SCSI hard drive production.

The third quarter of 2000 also includes a $14.8 million gain on the disposition of certain investment securities.

(4) The fourth quarter of 2000 includes benefits for adjustments to tax and other accrual accounts of $19.5 million and $11.0 million, respectively.

During the fourth quarter of 2001, the Company recorded nonoperating charges of $52.4 million to adjust the carrying value of equity investments in and notes receivable from Komag and accruals of Komag contingent guarantees.

(5) As a result of the adoption of Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements", the Company changed its revenue recognition policy effective July 1, 2000 to recognize revenue on certain product shipments upon delivery rather than shipment and recorded a cumulative effect of change in accounting principle of $1.5 million in the first quarter of 2001. In accordance with the requirements of SAB 101, as a result of its adoption during the fourth quarter of 2001, previously reported quarterly information for 2001 has been restated.

The quarterly results presented have been reclassified to present the operations of Connex and SANavigator as discontinued.

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WESTERN DIGITAL CORPORATION

SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Three years ended June 29, 2001
(in thousands)

	Allowance for Doubtful Accounts	Accrued Warranty(1)
Balance at June 27, 1998	$15,926	$ 47,135
Charges to operations	2,632	153,000
Deductions	(21)	(121,948)
Balance at July 3, 1999	18,537	78,187
Charges to operations	945	77,719
Deductions	(6,221)	(85,341)
Balance at June 30, 2000	13,261	70,565
Charges to operations	1,218	39,736
Deductions	(1,181)	(57,831)
Balance at June 29, 2001	$13,298	$ 52,470

(1) Accrued warranty includes amounts classified in non-current liabilities of $25.0 million at July 3, 1999, $30.2 million at June 30, 2000 and $21.5 million at June 29, 2001.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 29, 2001.

Item 11. ***Executive Compensation***

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders under the captions "Directors' Compensation," "Executive Compensation," "Report of the Compensation Committee," "Compensation Committee

Interlocks and Insider Participation," "Stock Performance Graph" and "Separation and Change of Control Arrangements" which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 29, 2001.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders under the caption "Security Ownership by Principal Shareholders and Management," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 29, 2001.

Item 13. ***Certain Relationships and Related Transactions***

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders under the caption "Security Ownership by Principal Shareholders and Management," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 29, 2001.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) Documents filed as a part of this Report:

(1) **Index to Financial Statements**

The financial statements included in Part II, Item 8 of this document are filed as part of this Report.

(2) **Financial Statement Schedules**

The financial statement schedule included in Part II, Item 8 of this document is filed as part of this Report.

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

Separate financial statements of the Company have been omitted as the Company is primarily an operating company and its subsidiaries are wholly or majority owned and do not have minority equity interests and/or indebtedness to any person other than the Company in amounts which together exceed 5% of the total consolidated assets as shown by the most recent year-end consolidated balance sheet.

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(3) **Exhibits**

Exhibit Number	Description
2.1	Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001, by and among the Company, Western Digital Technologies, Inc. (f/k/a Western Digital Corporation) and Western Digital Merger Sub, Inc.(25)
3.1	Amended and Restated Certificate of Incorporation of the Company, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001(25)
3.2	Amended and Restated By-laws of the Company, adopted as of April 6, 2001(25)
4.1	Rights Agreement between the Company and American Stock Transfer and Trust Company, as Rights Agent, dated April 6, 2001, which includes as Exhibit A thereto the Form of Rights Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(25)
4.2	Form of Common Stock Certificate(1)
4.3	Certificate of Designations of Series A Junior Participating Preferred Stock of the Company(25)
4.4	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A.(12)
4.4.1	Supplemental Indenture, dated as of April 6, 2001, between the Company and State Street Bank and Trust Company, N.A.(25)
4.7	The Company's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical to the Company's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(12)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(15)*
10.1.5	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001*†
10.3	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 18, 1999(22)*
10.3.1	First Amendment to the Western Digital Corporation 1993 Employee Stock Purchase Plan, dated April 6, 2001†*
10.10.1	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(11)*
10.10.2	First Amendment to the Western Digital Corporation Deferred Compensation Plan, dated April 6, 2001*†
10.11	The Western Digital Corporation Executive Bonus Plan(4)*
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan(13)*
10.12	The Extended Severance Plan of the Registrant(4)*
10.12.1	Amendment No. 1 to the Company's Extended Severance Plan(7)*
10.12.2	Western Digital Corporation Change of Control Severance Plan(26)*

10.13	Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993(3)
10.16.1	Western Digital Long-Term Retention Plan, as amended July 10, 1997(10)*
10.16.2	Western Digital Corporation Executive Retention Plan(14)*
10.17	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(2)

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Exhibit Number	Description
10.18	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(2)
10.19	Retention Agreement effective September 21, 1998 between the Company and Teresa A. Hopp(20)*
10.21	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 27, 2000†*
10.21.1	First Amendment to the Company's Non-Employee Directors Stock-For-Fees Plan, dated as of April 6, 2001†*
10.23	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(23)
10.30	The Company's Savings and Profit Sharing Plan(5)*
10.31	First Amendment to the Company's Savings and Profit Sharing Plan(5)*
10.32	Second Amendment to the Company's Savings and Profit Sharing Plan(6)*
10.32.1	Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(8)*
10.32.2	Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(9)*
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan(13)*
10.32.4	Sixth Amendment to the Company's Retirement Savings and Profit Sharing Plan(20)*
10.32.5	Seventh Amendment to the Company's Retirement Savings and Profit Sharing Plan(20)*
10.32.6	Eighth Amendment of the Company's Savings and Profit Sharing Plan, dated April 6, 2001†*
10.33	The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of May 25, 2000†*
10.33.1	First Amendment to the Company's Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001†*
10.34	Western Digital Corporation Broad-Based Stock Incentive Plan(20)*
10.34.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001†*
10.37	Separation and Consulting Agreement dated October 1, 1999, by and between the Company and Charles A. Haggerty(18)*
10.39	Agreement dated July 6, 1999, by and between the Company and David W. Schafer(18)*
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(13)(16)
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(13)(16)
10.42	Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated(17)(21)
10.43	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated(17)(21)
10.44	Agreement dated October 7, 1999, by and between the Company and Russell R. Stern(19)*
10.45	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees(19)*
10.45.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001†*
10.46	Amended and Restated Purchase Agreement dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation(20)

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Exhibit Number	Description
10.47	Credit Agreement, dated as of September 20, 2000, among Western Digital Technologies, Inc. and the other credit parties identified therein, General Electric Capital Corporation and Bank of America, N.A.(24)
10.47.1	First Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of March 8, 2001†
10.47.2	Second Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of March 23, 2001†
10.47.3	Third Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of April 7, 2001†
10.48	Continuing Guaranty between the Company and General Electric Capital Corporation, dated as of April 7, 2001†
10.49	Agreement between the Company and Teresa Hopp, dated July 5, 2001†*
10.50	Connex, Inc. 1999 Stock Incentive Plan†*
10.51	Cameo Technologies, Inc. 2000 Stock Incentive Plan†*
10.52	Keen Personal Media, Inc. 2000 Stock Incentive Plan†*
10.53	SageTree, Inc. 2000 Stock Incentive Plan†*
21	Subsidiaries of the Company†
23	Consent of Independent Auditors†

† New exhibit filed with this Report.

* Compensation plan, contract or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

(1) Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.

(3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 23, 1994.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 29, 1995.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 18, 1996.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 12, 1996.

(8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.

(10) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.

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(11) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.

(12) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.

(13) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 1, 1998.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 10, 1998.

(15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 8, 1999.

(16) Subject to confidentiality order dated October 2, 1998.

(17) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on October 1, 1999.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1999.

(19) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 14, 2000.

(20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 15, 2000.

(21) Subject to confidentiality order dated June 27, 2000.

(22) Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 333-95499) as filed with the Securities and Exchange Commission on January 27, 2000.

(23) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2000.

(24) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 13, 2000.

(25) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 6, 2001.

(26) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 14, 2001.

(b) Reports on Form 8-K:

On April 6, 2001, the Company filed a current report on Form 8-K to announce its holding company organizational structure.

On April 9, 2001, the Company filed a current report on Form 8-K to file a press release announcing its expectations of third quarter results to exceed earlier guidance.

On April 30, 2001, the Company filed a current report on Form 8-K to file its press release dated April 26, 2001, announcing its third quarter results.

On June 14, 2001, the Company filed a current report on Form 8-K to announce the sale of shares of its common stock in a private sale to an existing large institutional investor.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ MATTHEW E. MASSENGILL

Matthew E. Massengill
President and Chief Executive Officer

Dated: September 27, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on September 27, 2001.

Signature	Title
/s/ THOMAS E. PARDUN Thomas E. Pardun	Chairman of the Board
/s/ MATTHEW E. MASSENGILL Matthew E. Massengill	President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)
/s/ JOSEPH R. CARRILLO Joseph R. Carrillo	Vice President and Corporate Controller (Principal Accounting Officer)
/s/ PETER D. BEHRENDT Peter D. Behrendt	Director
/s/ I. M. BOOTH I. M. Booth	Director
/s/ KATHLEEN A. COTE Kathleen A. Cote	Director
/s/ HENRY T. DENERO Henry T. DeNero	Director
/s/ ROGER H. MOORE Roger H. Moore	Director

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EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001, by and among the Company, Western Digital

	Technologies, Inc. (f/k/a Western Digital Corporation) and Western Digital Merger Sub, Inc.(25)
3.1	Amended and Restated Certificate of Incorporation of the Company, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001(25)
3.2	Amended and Restated By-laws of the Company, adopted as of April 6, 2001(25)
4.1	Rights Agreement between the Company and American Stock Transfer and Trust Company, as Rights Agent, dated April 6, 2001, which includes as Exhibit A thereto the Form of Rights Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(25)
4.2	Form of Common Stock Certificate(1)
4.3	Certificate of Designations of Series A Junior Participating Preferred Stock of the Company(25)
4.4	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A.(12)
4.4.1	Supplemental Indenture, dated as of April 6, 2001, between the Company and State Street Bank and Trust Company, N.A.(25)
4.7	The Company's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical to the Company's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(12)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(15)*
10.1.5	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001*†
10.3	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 18, 1999(22)*
10.3.1	First Amendment to the Western Digital Corporation 1993 Employee Stock Purchase Plan, dated April 6, 2001†*
10.10.1	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(11)*
10.10.2	First Amendment to the Western Digital Corporation Deferred Compensation Plan, dated April 6, 2001*†
10.11	The Western Digital Corporation Executive Bonus Plan(4)*
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan(13)*
10.12	The Extended Severance Plan of the Registrant(4)*
10.12.1	Amendment No. 1 to the Company's Extended Severance Plan(7)*
10.12.2	Western Digital Corporation Change of Control Severance Plan(26)*
10.13	Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993(3)
10.16.1	Western Digital Long-Term Retention Plan, as amended July 10, 1997(10)*
10.16.2	Western Digital Corporation Executive Retention Plan(14)*
10.17	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(2)

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Exhibit Number	Description
10.18	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(2)
10.19	Retention Agreement effective September 21, 1998 between the Company and Teresa A. Hopp(20)*
10.21	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 27, 2000†*
10.21.1	First Amendment to the Company's Non-Employee Directors Stock-For-Fees Plan, dated as of April 6, 2001†*
10.23	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(23)
10.30	The Company's Savings and Profit Sharing Plan(5)*
10.31	First Amendment to the Company's Savings and Profit Sharing Plan(5)*
10.32	Second Amendment to the Company's Savings and Profit Sharing Plan(6)*
10.32.1	Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(8)*
10.32.2	Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(9)*
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan(13)*
10.32.4	Sixth Amendment to the Company's Retirement Savings and Profit Sharing Plan(20)*
10.32.5	Seventh Amendment to the Company's Retirement Savings and Profit Sharing Plan(20)*
10.32.6	Eighth Amendment of the Company's Savings and Profit Sharing Plan, dated April 6, 2001†*
10.33	The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of May 25, 2000†*
10.33.1	First Amendment to the Company's Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001†*
10.34	Western Digital Corporation Broad-Based Stock Incentive Plan(20)*
10.34.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001†*
10.37	Separation and Consulting Agreement dated October 1, 1999, by and between the Company and Charles A. Haggerty(18)*
10.39	Agreement dated July 6, 1999, by and between the Company and David W. Schafer(18)*
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(13)(16)
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(13)(16)
10.42	Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated(17)(21)
10.43	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated(17)(21)
10.44	Agreement dated October 7, 1999, by and between the Company and Russell R. Stern(19)*
10.45	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees(19)*
10.45.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001†*
10.46	Amended and Restated Purchase Agreement dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation(20)

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Exhibit Number	Description

10.47	Credit Agreement, dated as of September 20, 2000, among Western Digital Technologies, Inc. and the other credit parties identified therein, General Electric Capital Corporation and Bank of America, N.A.(24)
10.47.1	First Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of March 8, 2001†
10.47.2	Second Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of March 23, 2001†
10.47.3	Third Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of April 7, 2001†
10.48	Continuing Guaranty between the Company and General Electric Capital Corporation, dated as of April 7, 2001†
10.49	Agreement between the Company and Teresa Hopp, dated July 5, 2001†*
10.50	Connex, Inc. 1999 Stock Incentive Plan†*
10.51	Cameo Technologies, Inc. 2000 Stock Incentive Plan†*
10.52	Keen Personal Media, Inc. 2000 Stock Incentive Plan†*
10.53	SageTree, Inc. 2000 Stock Incentive Plan†*
21	Subsidiaries of the Company†
23	Consent of Independent Auditors†

† New exhibit filed with this Report.

* Compensation plan, contract or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

(1) Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.

(3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 23, 1994.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 29, 1995.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 18, 1996.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 12, 1996.

(8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.

(10) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.

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(11) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.

(12) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.

(13) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 1, 1998.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 10, 1998.

(15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 8, 1999.

(16) Subject to confidentiality order dated October 2, 1998.

(17) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on October 1, 1999.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1999.

(19) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 14, 2000.

(20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 15, 2000.

(21) Subject to confidentiality order dated June 27, 2000.

(22) Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 333-95499) as filed with the Securities and Exchange Commission on January 27, 2000.

(23) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2000.

(24) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 13, 2000.

(25) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 6, 2001.

(26) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 14, 2001.

EXHIBIT 10.1.5

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION EMPLOYEE STOCK OPTION PLAN

This First Amendment (the "Amendment") to the Western Digital Corporation Employee Stock Option Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated version of the Plan document that was adopted on November 5, 1998; and

WHEREAS, Section 7 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.3.1

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION 1993 EMPLOYEE STOCK PURCHASE PLAN

This First Amendment (the "Amendment") to the Western Digital Corporation 1993 Employee Stock Purchase Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated Plan document, dated November 18, 1999; and

WHEREAS, Section 16 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.10.2

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION DEFERRED COMPENSATION PLAN

This First Amendment (the "Amendment") to the Western Digital Corporation Deferred Compensation Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated Plan document, effective January 1, 1998; and

WHEREAS, Section 11.2 of the Plan authorizes each Employer under the Plan to amend the Plan with respect to its employees by action of its Board of Directors; and

WHEREAS, the Company is authorized on behalf of each Employer under the Plan to amend the Plan as described in the Amendment; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.21

AMENDED AND RESTATED WESTERN DIGITAL CORPORATION

NON-EMPLOYEE DIRECTORS STOCK-FOR-FEES PLAN

This plan (1) was implemented in 1992, (2) was amended and restated effective as of January 9, 1997 to require directors to take half their annual retainer fee in stock, permit deferrals of cash or stock under the plan, and make certain other changes to conform the plan to the new version of Rule 16b-3 and ease administration and (3) was amended and restated effective as of January 27, 2000, to require directors to take $20,000 of their annual retainer fee in stock, increase the premium to 25% for deferral of annual retainers or meeting fees received in the form of common stock and provide a premium of 15% for deferral of annual retainers or meeting fees received in the form of cash.

1. PURPOSE.

The purposes of this Western Digital Corporation Non-Employee Director Stock-For-Fees Plan (the "PLAN") are to advance the interests of Western Digital Corporation (the "COMPANY") and its stockholders by increasing ownership by the Company's non-employee directors of the Company's Common Stock, thereby aligning their interests more closely with the interests of the Company's other stockholders, and to make available to the Company the cash that would otherwise have been paid to non-employee directors receiving Common Stock in lieu of fees hereunder.

2. ADMINISTRATION.

The Plan shall be administered by the Company, which shall have the power to construe the Plan, to resolve all questions arising under the Plan, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and otherwise to carry out the terms of the Plan, but only to the extent not contrary to the express provisions of the Plan. The determinations, interpretations, and other actions of the Company of or under the Plan or with respect to any Common Stock granted pursuant to the Plan shall be final and binding for all purposes and on all persons. Neither the Company nor any officer or employee thereof shall be liable for any action or determination taken or made under the Plan in good faith. Notwithstanding the foregoing, the Company shall have no authority or discretion as to the persons who will receive Common Stock granted pursuant to the Plan, the number of shares of Common Stock to be issued under the Plan, the time at which such grants are made, the number of shares of Common Stock to be granted at any particular time, or any other matters that are specifically governed by the provisions of the Plan.

3. PARTICIPATION IN THE PLAN.

Directors of the Company who are not employees of the Company or any subsidiary of the Company ("ELIGIBLE DIRECTORS") shall be eligible to participate in the Plan. Each Eligible Director shall, if required by the Company, enter into an agreement with the Company in such form as the Company shall determine consistent with the provisions of the Plan for purposes of implementing the Plan or effecting its purposes. In the event of any inconsistency between the provisions of the Plan and any such agreement, the provisions of the Plan shall govern.

4. STOCK SUBJECT TO THE PLAN.

(a) Number of Shares. The shares that may be issued under the Plan shall be authorized and unissued shares or treasury shares of the Company's Common Stock (the "COMMON STOCK"). The maximum aggregate number of shares that may be issued under the Plan shall be four hundred thousand (400,000), subject to adjustment upon changes in capitalization of the Company as provided in Section 4(b). The maximum aggregate number of shares issuable under the Plan may be increased from time to time by approval of the Company's Board of Directors, and by the stockholders of the Company if stockholder approval is required pursuant to the applicable rules of any stock exchange, or, in the opinion of the Company's counsel, any other law or regulation binding upon the Company.

(b) Adjustments. If the Company shall at any time increase or decrease the number of its issued and outstanding shares of Common Stock (whether by reason of reorganization, merger, consolidation, recapitalization, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure, or otherwise), then the number of shares of Common Stock still available for issue hereunder shall be increased or decreased appropriately and proportionately.

5. MANDATORY STOCK PAYMENTS AND ELECTIONS.

For all annual retainer fees paid from and after January 27, 2000, $20,000 of the annual retainer fee payable to each Eligible Director shall be paid in the form of Common Stock rather than cash. Each Eligible Director may make an "ELECTION" to receive Common Stock in lieu of any or all of (i) the remainder of the annual retainer fee otherwise payable to him or her in cash for that calendar year, and/or (ii) the meeting attendance fees otherwise payable to him or her in cash for that calendar year. Such Election for any calendar year must be in writing and must be delivered to the Secretary of the Company not later than the end of the immediately preceding calendar year. In addition, newly elected or appointed Eligible Directors shall make an interim Election as of the date they join the board, which interim Election shall govern until the immediately ensuing calendar year. Separate Elections must be made for each calendar year; if an Eligible Director does not make a written Election for any particular calendar year, then such Eligible Director shall be deemed to have elected to receive all meeting fees and the remainder of his or her retainer fee for that calendar year in cash.

6. ISSUANCE OF COMMON STOCK.

(a) Timing and Amounts of Issuances.

(i) Common Stock issuable to an Eligible Director in lieu of annual retainer or meeting fees shall be issued not later than ten days after the date such annual retainer or meeting fees, as the case may be, would have been paid if paid in cash.

(ii) The number of shares of Common Stock issuable in lieu of cash annual retainer fees (whether or not deferred) shall be determined by dividing the amount of cash fees being replaced by Common Stock by the Fair Market Value (as defined below) of the Common Stock on the first trading day of the calendar year for which the annual retainer is being paid (or January 27 in the case of 2000) or, in the case of an annual retainer being paid to a newly appointed or elected Eligible Director for a partial year, on the date such Eligible Director joins the board.

(iii) The number of shares of Common Stock issuable in lieu of cash meeting fees (whether or not deferred) shall be determined by dividing the amount of cash fees being replaced by Common Stock by the Fair Market Value of the Common Stock on the date of the meeting for which the fee is paid.

(b) Fractional of Shares. No fractional shares shall be issued under the Plan. The portion of annual retainer or meeting fees that would be paid in Common Stock but for the proscription on fractional shares shall be paid in cash along with any portion of the fee (or the next subsequent fee) that the Eligible Director has elected to receive in cash. For directors electing no cash for a particular calendar year, fractional share equivalent cash balances shall be held by the Company until the end of that calendar year and then distributed in cash to the Eligible Director without interest.

(c) Fair Market Value. For the purposes of the Plan, the "FAIR MARKET VALUE" of the Common Stock as of any issuance or deferral date shall be the closing price of the Common Stock on the New York Stock Exchange (or another national stock exchange or the NASDAQ National Market System, if the Common Stock trades thereon but not on the NYSE) as of such date (or, if no such shares were traded on such date, as of the next preceding day on which there was such a trade, provided that the closing price on such preceding date is not less than 100% of the fair market value of the Common Stock, as determined in good faith by the Company, on the date of issuance). If at any time the Common Stock is no longer traded on a national stock exchange or the NASDAQ National Market System, the Fair Market Value of the Common Stock as of any issuance date shall be as determined by the Company in good faith in the exercise of its reasonable discretion.

(d) Issuance of Certificates. As promptly as practicable following each issuance of Common Stock hereunder, the Company shall issue to the recipient Eligible Director a stock certificate or certificates registered in his or her name representing the number of shares of Common Stock issued.

7. DEFERRAL.

(a) Election to Defer. An Eligible Director may elect to defer the receipt of any cash or stock annual retainer or meeting fees payable during the period to which an Election applies. Any such deferral election by an Eligible Director shall specify whether the fees to be deferred are fees that the Eligible Director is required or has elected to receive in Common Stock, and shall be made and take effect at the times specified in the Company's Deferred Compensation Plan (the "DEFERRED COMPENSATION PLAN"). The deferral shall not change the form (cash versus Common Stock) in which the fee is to be paid at the end of the deferral period, notwithstanding the fact that during the deferral period fees ultimately payable in Common Stock may be general unsecured obligations of the Company to the Eligible Director.

(b) Common Stock Premium. The Company shall pay a 25% premium to each Eligible Director who elects to defer annual retainer or meeting fees to be received in Common Stock. The number of shares of Common Stock deferred and the premium thereon shall be calculated by multiplying the amount of cash fees being replaced by Common Stock and deferred by 1.25, and then dividing that product by the Fair Market Value of the Common Stock on the date set forth in Section 6(a)(ii) or Section 6(a)(iii) for annual retainer or meeting fees, respectively. Any premium Common Stock shall be subject to the same deferral election, and deliverable to the Eligible Director on the same terms, as the Common Stock upon which the premium is paid.

(c) Cash Stock Premium. The Company shall pay a 15% premium to each Eligible Director who elects to defer annual retainer or meeting fees to be received in cash. The cash deferred and the premium thereon shall be calculated by multiplying the amount of cash fees being deferred by 1.15. Any premium cash shall be subject to the same deferral election, and deliverable to the Eligible Director on the same terms, as the cash upon which the premium is paid.

(d) Plan Shares. All shares issued or issuable under the Plan, including deferred shares and shares issuable as premiums on deferrals, shall be deducted from the shares available under the Plan at the time first issued or deferred, provided that shares deferred and not ultimately issued and delivered to the Eligible Director shall be returned to the pool of available shares under the Plan.

(e) Deferred Compensation Plan. Deferral of Eligible Directors' fees, whether payable in cash or Common Stock and including any premiums, shall be administered pursuant to the Deferred Compensation Plan.

8. SECURITIES LAWS.

(a) Investment Representations. The Company may require any Eligible Director to whom an issuance of securities is made or a deferred delivery obligation is undertaken as a condition of receiving securities pursuant to such issuance or obligation to give written assurances in substance and form satisfactory to the Company and its counsel to the effect the such person is acquiring the securities for his or her own account for investment and not with any present intention of selling or otherwise distributing the same in violation of applicable securities laws, and to such other effects as the Company deems necessary or appropriate to comply with federal and applicable state securities laws.

(b) Listing, Registration, and Qualification. Anything to the contrary herein notwithstanding, each issuance of securities shall be subject to the requirement that, if at any time the Company or its counsel shall determine that the listing, registration, or qualification of the securities subject to such issuance upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary or advisable as a condition of, or in connection with, such issuance of securities, such issuance shall not occur in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained on conditions acceptable to the Company. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, or qualification.

(c) Restrictions on Transfer. The securities issued under the Plan shall be restricted by the Company as to transfer unless the grants are made under a registration statement that is effective under the Securities Act of 1933, as amended, or unless the Company receives an opinion of counsel satisfactory to the Company to the effect that registration under state or federal securities laws is not required with respect to such transfer.

9. WITHHOLDING TAXES.

Whenever shares of Common Stock are to be issued under the Plan, the Company shall have the right prior to the delivery of any certificate or certificates for such shares to require the recipient to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements attributable to the issuance. In the absence of payment by an Eligible Director to the Company of an amount sufficient to satisfy such withholding taxes, or an alternative arrangement with the Eligible Director that is satisfactory to the Company, the Company may make such provisions as it deems appropriate for the withholding of any such taxes which the Company determines it is required to withhold.

10. AMENDMENT OF THE PLAN.

The Board of Directors of the Company may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time-to-time in any respect the Board of Directors may deem to be in the best interests of the Company; provided, however, that no such amendment shall be effective without approval of the stockholders of the Company if stockholder approval of the amendment is then required pursuant to the applicable rules of any securities exchange, or, in the opinion of the Company's counsel, any other law or regulation binding on the Company.

11. EFFECTIVE DATE AND DURATION OF THE PLAN.

The Plan shall, subject to approval by the Company's stockholders at the Company's 1992 Annual Meeting, be effective January 1, 1993. The Plan shall terminate at 11:59 p.m. on December 31, 2002, unless sooner terminated by action of the Board of Directors. Elections may be made under the Plan prior to its effectiveness, but no issuances under the Plan shall be made before its effectiveness or after its termination.

12. GOVERNING LAWS.

The Plan and all rights and obligations under the Plan shall be construed in accordance with and governed by the laws of the State of California, excluding its conflicts of laws principles.

EXHIBIT 10.21.1

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION NON-EMPLOYEE DIRECTORS STOCK-FOR-FEES PLAN

This First Amendment (the "Amendment") to the Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated Plan document, effective May 25, 2000; and

WHEREAS, Section 10 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.32.6

EIGHTH AMENDMENT TO THE WESTERN DIGITAL CORPORATION SAVINGS AND PROFIT SHARING PLAN

This Eighth Amendment (the "Amendment") to the Western Digital Corporation Savings and Profit Sharing Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated Plan document, dated June 23, 1995, as thereafter amended by the First Amendment dated June 30, 1995; the Second Amendment dated March 27, 1996; the Third Amendment dated January 9, 1997; the Fourth Amendment dated March 20, 1997; the Fifth Amendment dated November 13, 1997; the Sixth Amendment dated January 27, 2000; and the Seventh Amendment dated March 30, 2000; and

WHEREAS, Section 17.1 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its appointment as Plan administrator under the Plan, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment; and

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. Section 7.4 of the Plan is hereby amended by deleting such section in its entirety and inserting in lieu thereof the following:

7.4. SECURITIES TRANSACTIONS. The Trustee may acquire Stock in the open market or from the Company or any other person, including a party in interest. No commission will be paid in connection with the Trustee's acquisition of Stock from a party in interest. Neither the Company, nor any Employer, nor the Committee, nor any Trustee have any responsibility or duty to time any transaction involving Stock in order to anticipate market conditions or changes in Stock value. Neither the Company, nor any Employer, nor the Committee, nor any Trustee have any responsibility or duty to sell Stock held in the Trust Fund in order to maximize return or minimize loss.

3. The first sentence of Subsection 7.6.4 of the Plan is hereby amended by deleting such sentence and inserting in lieu thereof the following:

> In the event a court of competent jurisdiction shall issue an opinion or order to the Plan, the Company, any Employer, or the Trustee, which shall, in the opinion of counsel to the Company, the Employer or the Trustee, invalidate under ERISA, in all circumstances or in any particular circumstances, any provision or provisions of this Section regarding the manner in which Stock held in the Trust shall be voted or cause any such provision or provisions to conflict with ERISA, then, upon notice thereof to the Company, the Employer, or the Trustee, as the case may be, such invalid or conflicting provisions of this Section shall be given no further force or effect.

4. The first sentence of Subsection 7.11.4 of the Plan is hereby amended by deleting such sentence and inserting in lieu thereof the following:

> With respect to any Offer received by the Trustee, the Trustee shall distribute, at the Employer's expense, copies of all relevant material, including, but not limited to, material filed with the Securities and Exchange Commission with such Offer or regarding such Offer, and shall seek confidential written instructions from each Participant who is entitled to respond to such Offer pursuant to Subsections 7.11.1, 7.11.2 or 7.11.3.

5. The last sentence of Subsection 7.11.5 of the Plan is hereby amended by deleting such sentence and inserting in lieu thereof the following:

> The instruction form shall state that: (i) if the Participant fails to return an instruction form to the Trustee by the indicated deadline, the Stock with respect to which he is entitled to give instructions will not be sold, exchanged or transferred pursuant to such Offer, (ii) the Participant will be a named fiduciary (as described

in Subsection 7.11.10 below) with respect to all shares for which he is entitled to give instructions, and (iii) the Employer acknowledges and agrees to honor the confidentiality of the Participant's instructions to the Trustee.

6. The first sentence of Subsection 7.11.7 of the Plan is hereby amended by deleting such sentence and inserting in lieu thereof the following:

The Employer shall furnish former Participants who have received distributions of Stock so recently as to not be shareholders of record with the information given to Participants pursuant to Subsections 7.11.4, 7.11.5, and 7.11.6 of this Section.

7. Subsection 7.11.9 of the Plan is hereby amended by deleting such section and inserting in lieu thereof the following:

7.11.9. The Trustee shall not reveal or release a Participant's instructions to the Company or to any Employer, its officers, directors, employees, or representatives. If some but not all Stock held by the Trust is sold, exchanged, or transferred pursuant to an Offer, the Employer, with the Trustee's cooperation, shall take such action as is necessary to maintain the confidentiality of Participant's records, including, without limitation, establishment of a security system and procedures which restrict access to Participant records and retention of an independent agent to maintain such records. If an independent record-keeping agent is retained, such agent must agree, as a condition of its retention by the Employer, not to disclose the composition of any Participant Accounts to the Company, the Employer, its officers, directors, employees, or representatives. The Company and the Employer acknowledge and agree to honor the confidentiality of Participants' instructions to the Trustee.

8. The first sentence of Subsection 7.11.12 of the Plan is hereby amended by deleting such sentence and inserting in lieu thereof the following:

In the event a court of competent jurisdiction shall issue to the Plan, the Company, any Employer, or the Trustee an opinion or order, which shall, in the opinion of counsel to the Company, the Employer or the Trustee, invalidate, in all circumstances or in any particular circumstances, any provision or provisions of this Section regarding the determination to be made as to whether or not Stock held by the Trustee shall be sold, exchanged or transferred pursuant to an Offer or cause any such provision or provisions to conflict with securities laws, then, upon notice thereof to the Company, the Employer or the Trustee, as the case may be, such invalid or conflicting provisions of this Section shall be given no further force or effect.

9. This Amendment shall be effective as of the consummation of the Merger.

10. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this Eighth Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.33

WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED
STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I
GENERAL

1.01 Adoption and Amendment. This Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors (the "PLAN") was initially adopted by the Board of Directors (the "BOARD") of Western Digital Corporation (the "COMPANY") as of May 15, 1985 (the initial effective date of the Plan) subject to approval of the Company's shareholders, which was obtained at the Annual Meeting of Shareholders held on November 15, 1985. Amendment No. 1 to the Plan was adopted by the Board as of December 6, 1985, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 13, 1986. Amendment No. 2 to the Plan was adopted by the Board as of September 22, 1987, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 19, 1987. Amendment No. 3 to the Plan was approved by the Board without shareholder approval on November 19, 1987. Amendment No. 4 to the Plan was adopted by the Board as of September 22, 1988, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 17, 1988. Amendment No. 5 to the Plan was adopted by the Board as of July 27, 1989, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 16, 1989. Amendment No. 6 to the Plan was adopted by the Board as of July 26, 1990, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 15, 1990. Amendment No. 7 to the Plan was approved by the Board without shareholder approval on May 23, 1991. Amendment No. 8 to the Plan was approved by the Board as of July 21, 1994, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 10, 1994. Amendment No. 9 to the Plan was approved by the Board as of September 7, 1995, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 1, 1995. Amendment No. 10 to the Plan was approved by the Board without shareholder approval on July 11, 1997 to reflect the two-for-one stock-split effected on May 20, 1997. This Amendment and Restatement of the Plan was approved by the Board on May 25, 2000, subject to shareholder approval, and is effective as of that date. This Amendment and Restatement of the Plan shall govern all options granted under the Plan after the date of approval hereof by the Company's shareholders and all options granted under the Plan prior to that date, subject to any required consents of the holders of such options; prior to or in the absence of any such consent, options granted under the Plan as amended through Amendment No. 10 thereto will be governed by that version of the Plan.

1.02 Administration. The Plan shall be administered by the Company, which, subject to the express provisions of the Plan, shall have the power to construe the Plan and any agreements or memoranda defining the rights and obligations of the Company and option recipients, to determine all questions arising thereunder, to adopt and amend such rules and regulations for the administration thereof as it may deem desirable, and otherwise to carry out

the terms of the Plan and such agreements or memoranda. The interpretation and construction by the administrator of any provisions of the Plan or of any option granted under the Plan shall be final. Notwithstanding the foregoing, the administrator shall have no authority or discretion as to the selection of persons eligible to receive options granted under the Plan, the timing of such grants, or the exercise price of options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

1.03 Eligible Directors. All members of the Board who are not employees of the Company or any of its subsidiaries shall be eligible to receive grants of options under the Plan (an "ELIGIBLE DIRECTOR").

1.04 Shares of Common Stock Subject to the Plan and Grant Limit. The shares that may be issued upon exercise of options granted under the Plan shall be authorized and unissued shares of the Company's Common Stock or previously issued shares of the Company's Common Stock reacquired by the Company and unused option shares pursuant to Section 2.06. The aggregate number of shares that may be issued upon exercise of options granted under the Plan shall not exceed 2,600,000 shares of Common Stock, subject to adjustment in accordance with Article III.

1.05 Amendment of the Plan. The Board may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except that no such amendment shall alter or impair or diminish any rights or obligations under any option theretofore granted under the Plan without the consent of the person to whom such option was granted. In addition, if an amendment to the Plan would increase the number of shares subject to the Plan (as adjusted under Article III), change the class of persons eligible to receive options under the Plan, provide for the grant of options having an exercise price per option share less than the exercise price specified in the Plan, extend the final date upon which options may be granted under the Plan, or otherwise materially increase the benefits accruing to participants in a manner not specifically contemplated herein or affect the Plan's compliance with Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), the amendment shall be approved by the Company's shareholders to the extent required to comply with Rule 16b-3 under the Exchange Act ("RULE 16B-3"). Notwithstanding the foregoing, the Board may, in its sole discretion, amend the Plan to change the number of options specified in Section 2.01 and 2.02 without approval of the Company's shareholders. Under no circumstances may the provisions of the Plan that provide for the amounts, price, and timing of option grants be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the rules thereunder. The Plan is intended to qualify as a formula plan under Rule 16b-3, but not to impose restrictions included in the Plan for purposes of compliance with Rule 16b-3 if those restrictions become unnecessary to compliance with Rule 16b-3. Accordingly, notwithstanding the foregoing, the administrator may administer and amend the Plan to comply with or take advantage of changes in the rules (or interpretations thereof) promulgated by the Securities and Exchange Commission or its staff under Section 16 of the Exchange Act, subject to the shareholder approval requirement described above.

1.06 Term of Plan. Options may be granted under the Plan until the earlier to occur of May 25, 2010 or the date of a Change in Control, as defined in Section 3.02. In addition, no options may be granted during any suspension of the Plan or after its termination for any reason. Notwithstanding the foregoing, each option properly granted under the Plan shall remain in effect until such option has been exercised or terminated in accordance with its terms and the terms of the Plan.

1.07 Restrictions. Notwithstanding any other provision of the Plan, all options granted under the Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to options granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government or regulatory body or authority, is necessary or desirable as a condition of, or in connection with, the granting of such an option or the issuance, if any, or purchase of shares in connection therewith, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. Unless the shares of stock to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933, as amended (the "SECURITIES ACT") as now in force or hereafter amended, the Company shall be under no obligation to issue any shares of stock covered by any option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company satisfactory in form and scope to counsel to the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he or she is acquiring the shares of stock issued to him or her pursuant to such exercise of the option for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of stock, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act, or any other applicable law or regulation, and that if shares of stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued and the Company may order its transfer agent to stop transfer of such shares.

1.08 Assignability. No option granted under the Plan shall be assignable or transferable by the grantee except by will or the laws of descent and distribution or upon dissolution of marriage pursuant to a property settlement or domestic relations order, or as permitted on a case-by-case basis in the discretion of, and subject to such conditions as may be imposed by, the administrator to permit transfers to immediate family members, family trusts or family foundations of the grantee under circumstances that would not adversely affect the interests of the Company.

1.09 Withholding Taxes. Whenever shares of stock are to be issued upon exercise of an option granted under the Plan, the administrator shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to such issuance. The administrator may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of stock of the Company or by withholding a portion of the stock otherwise issuable upon exercise of an option.

1.10 Definition of "Fair Market Value." For purposes of the Plan, the "fair market value" of a share of stock as of a particular date shall be: (a) if the stock is listed on an established stock exchange or exchanges (including, for this purpose, The Nasdaq Stock Market), the last reported sale price per share of the stock on such date on the principal exchange on which it is traded or, if no sale was made on such date on such principal exchange, then as of the next preceding date on which such a sale was made; or (b) if the stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the stock in the over-the-counter market as quoted on the NASDAQ system on such date (in the case of (a) or (b), subject to adjustment as and if necessary and appropriate to set an exercise price not less than 100% of the fair market value of the stock on the date an option is granted); or (c) if the stock is not then listed on an exchange or quoted in the over-the-counter market, an amount determined in good faith by the administrator. The fair market value of rights or property other than stock shall be determined by the administrator on the basis of such factors as it may deem appropriate.

1.11 Rights as a Shareholder. An optionee or a permitted transferee of an option shall have no rights as a shareholder with respect to any shares issuable or issued upon exercise of the option until the date of the receipt by the Company of all amounts payable in connection with exercise of the option, including the exercise price and any amounts required pursuant to Section 1.09.

ARTICLE II
STOCK OPTIONS

2.01 Grants of Initial Options. Each Eligible Director shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 75,000 shares of the Company's Common Stock, subject to adjustment as set forth in Article III. Options granted under this Section 2.01 are "INITIAL OPTIONS" for the purposes hereof. The exercise price per share for Initial Options shall be equal to the fair market value of the Company's Common Stock on the date of grant, subject to adjustment as set forth in Article III. An Eligible Director who has received an initial grant of stock options under the Plan or pursuant to a prior option plan for the Company's directors shall not be eligible to receive an Initial Option.

2.02 Grants of Additional Options. Immediately following the annual meeting of shareholders of the Company next following an Eligible Director's becoming an Eligible Director and immediately following each subsequent annual meeting of shareholders of the Company, in each case if the Eligible Director has served as a director since his or her election or appointment and has been re-elected as a director at such annual meeting, such Eligible Director shall automatically receive an option to purchase up to 10,000 shares of the Company's Common Stock (an "ADDITIONAL OPTION"), subject to adjustment as set forth in Article III. For purposes of this Section 2.02 the Chairman of the Board of the Company shall not be an Eligible Director. In addition to the Additional Options described above, an individual who was previously an Eligible Director and received an initial grant of stock options under the Plan or pursuant to a prior option plan for the Company's directors, who then ceased to be a director for any reason, and who then again becomes an Eligible Director, shall upon again becoming an Eligible Director automatically receive an Additional Option. The exercise price per share for all Additional Options shall be equal to the fair market value of the Company's Common Stock on the date of grant, subject to adjustment as set forth in Article III.

2.03 Vesting. Initial Options and Additional Options shall vest and become exercisable in installments equal to 25% of the shares covered by such option on the first anniversary of the date of grant and 6 1/4% of the shares covered by such option at the end of each of the next 12 three-month periods thereafter. Notwithstanding the foregoing, however, but subject to Section 3.02, (i) Initial Options and Additional Options will vest and become exercisable as set forth herein only if the optionee has remained a director for the entire period from the date of grant to the date specified herein for vesting, and (ii) Initial Options and Additional Options that have not vested and become exercisable at the time the optionee ceases to be a director shall terminate, except that if an optionee has served as a director for at least 48 months and is at least 55 years old upon retirement from the Company (a "RETIRED DIRECTOR"), all unvested Initial Options and Additional Options of such Retired Director will immediately vest and become exercisable.

2.04 Exercise. No option shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded. Not less than 100 shares of stock (or such other amount as is set forth in the applicable option agreement or confirming memorandum) may be purchased at one time unless the number purchased is the total number at the time available for purchase under the terms of the option. An option shall be deemed to be exercised when the Secretary or other designated official of the Company receives written notice of such exercise from or on behalf of the optionee, together with payment of the exercise price and any amounts required under Section 1.09. The option exercise price shall be payable upon the exercise of an option in legal tender of the United States or capital stock of the Company delivered in transfer to the Company by or on behalf of the person exercising the option (duly endorsed in blank or accompanied by stock powers duly endorsed in blank, with signatures guaranteed in accordance with the Exchange Act if required by the administrator) or retained by the Company from the stock otherwise issuable upon exercise or surrender of vested and exercisable options granted to the recipient and being exercised (in either case valued at fair market value as of the exercise date), or such other consideration as the administrator may from time to time in the exercise of its discretion deem acceptable in any particular instance, provided, however, that the administrator may, in the exercise of its discretion, (a) allow exercise of an option in a broker-assisted or similar transaction in which the exercise price is not received by the Company until promptly after exercise, and/or (b) allow the Company to loan the exercise price to the person entitled to exercise the option, if the exercise will be followed by a prompt sale of some or all of the underlying shares and a portion of the sales proceeds is dedicated to full payment of the exercise price and amounts required pursuant to Section 1.09.

2.05 Option Agreements or Memoranda. Each option granted under the Plan shall be evidenced by an option agreement duly executed on behalf of the Company and by the Eligible Director to whom such option is granted or, in the administrator's discretion, a confirming memorandum issued by the Company to the recipient, stating the number of shares of stock issuable upon exercise of the option and the exercise price, and setting forth explicitly or by reference to the Plan the time during which the option is exercisable and the times at which the options vest and become exercisable. Such option agreements or confirming memoranda may but need not be identical and shall comply with and be subject to the terms and conditions of the Plan, a copy of which shall be provided to each option recipient and incorporated by reference into each option agreement or confirming memorandum. Any option agreement or confirming memorandum may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the administrator.

2.06 Term of Options and Effect of Termination. Notwithstanding any other provision of the Plan, no option granted under the Plan shall be exercisable after the expiration of ten years from the effective date of its grant. In the event that any outstanding option under the Plan expires by reason of lapse of time or is otherwise terminated without exercise for any reason, then the shares of Common Stock subject to such option that have not been issued upon exercise of the option shall again become available in the pool of shares of Common Stock for which options may be granted under the Plan. In the event that the recipient of any options granted under the Plan shall cease to be a director of the Company for any reason, and subject to Section 3.02, all Initial Options and Additional Options granted under the plan to such recipient shall be exercisable, to the extent they are already exercisable at the date such recipient ceases to be a director, for a period of 365 days after that date (or, if sooner, until the expiration of the option according to its terms), and shall then terminate. Notwithstanding the preceding sentence, a Retired Director's Initial Options and Additional Options shall be exercisable until the earlier of three years from the effective date of retirement from the Company or expiration of the term of any such option (the "EXERCISE PERIOD"), provided, however, that if the Board determines that such Retired Director rendered services as an employee, director, consultant, contractor or otherwise to a competitor of the Company during the Exercise Period, then (i) any outstanding Initial Options and Additional Options shall immediately terminate on the date of the Board's determination that such Retired Director rendered services to a competitor, and (ii) the Company shall have the right to recover from such Retired Director any profits realized upon the exercise of Initial Options and Additional Options during the six (6) month period before the termination date set forth in (i) above. For this purpose, profits shall be defined as the difference between the exercise price of the Initial Options and Additional Options exercised during such period and the fair market value of the Company's Common Stock on the date of exercise. In the event of the death of an optionee while such optionee is a director of the Company or within the period after termination of such status during which he or she is permitted to exercise an option, such option may be exercised by any person or persons designated by the optionee on a beneficiary designation form adopted by the administrator for such purpose or, if there is no effective beneficiary designation form on file with the Company, by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his or her will or the applicable laws of descent and distribution.

2.07 One-Time Grant of Options. Subject to shareholder approval, each Eligible Director as of May 25, 2000 shall receive a one-time grant of an option covering 50,000 shares of the Company's Common Stock, subject to adjustment as set forth in Article III. All options granted under this Section 2.07 shall be deemed Initial Options under the Plan. The exercise price per share of these Initial Options shall be equal to the fair market value of the Company's Common Stock on the date of grant, subject to adjustment as set forth in Article III. The grant of Initial Options under this Section 2.07 is intended to eliminate the disparity in the number of Initial Options previously granted to Eligible Directors under the Plan with the number of Initial Options granted to Eligible Directors under the Plan, as amended.

ARTICLE III
CORPORATE TRANSACTIONS

3.01 Anti-dilution Adjustments. The number of shares of Common Stock available for issuance upon exercise of options granted under the Plan, the number of shares for which each outstanding option can be exercised, the number of shares underlying an Initial Option, the number of shares underlying an Additional Option, and the exercise price per share of options shall be appropriately and proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of issued and outstanding shares of capital stock of the Company effected without receipt of consideration by the Company. No fractional interests will be issued under the Plan resulting from any such adjustments.

3.02 Reorganizations; Mergers; Changes in Control. Subject to the other provisions of this Section 3.02, if the Company shall consummate any reorganization or merger or consolidation in which holders of shares of the Company's Common Stock are entitled to receive in respect of such shares any other consideration (including, without limitation, a different number of such shares), each option outstanding under the Plan shall thereafter be exercisable, in accordance with the Plan, only for the kind and amount of securities, cash and/or other property receivable upon such reorganization or merger or consolidation by a holder of the same number of shares of Common Stock as are subject to that option immediately prior to such reorganization or merger or consolidation, and any appropriate adjustments will be made to the exercise price thereof. In addition, if a Change in Control occurs and in connection with such Change in Control any recipient of an option granted under the Plan ceases to be a director of the Company, then such recipient shall have the right to exercise his or her options granted under the Plan in whole or in part during the applicable time period provided in Section 2.06 without regard to any vesting requirements. For purposes hereof, but without limitation, a director will be deemed to have ceased to be a director of the Company in connection with a Change in Control if such director (i) is removed by or resigns upon request of a Person (as defined in paragraph (a) below) exercising practical voting control over the Company following the Change in Control or a person acting upon authority or at the instruction of such Person, or (ii) is willing and able to continue as a director of the Company but is not re-elected to or retained on the Board by the Company's shareholders through the shareholder vote or consent action for election of directors that precedes and is taken in connection with, or next follows, the Change in Control. For purposes hereof, a "CHANGE IN CONTROL" means the following and shall be deemed to occur if any of the following events occurs:

(a) Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Exchange Act, but excluding the Company and its subsidiaries and any employee benefit or stock ownership plan of the Company or its subsidiaries and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "PERSON"), becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

(b) Individuals who, as of the effective date hereof, constitute the Board cease for any reason to constitute at least a majority of the Board, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(c) Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(i) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(ii) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

(d) Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

3.03 Determination by the Company. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the administrator, whose determination in that respect shall be final, binding and conclusive. The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate or to sell or transfer all or any part of its business or assets.

# # #

EXHIBIT 10.33.1

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION AMENDED AND RESTATED STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

This First Amendment (the "Amendment") to the Western Digital Corporation Amended and Restated Stock Option Plan For Non-Employee Directors (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated version of the Plan document adopted May 25, 2000; and

WHEREAS, Section 1.05 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.34.1

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION BROAD-BASED STOCK INCENTIVE PLAN

This First Amendment (the "Amendment") to the Western Digital Corporation Broad-Based Stock Incentive Plan (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in the Plan document adopted by the Company on September 30, 1999; and

WHEREAS, Section 13 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."; and

WHEREAS, the Company desires to assign sponsorship of the Plan, its duties as Plan administrator, and all other Plan related rights and obligations to Holdings, and Holdings is desirous of accepting such assignment.

NOW, THEREFORE, the Plan is amended as follows:

1. The Company hereby assigns to Holdings, and Holdings hereby assumes sponsorship of the Plan, appointment as Plan administrator, and all of the other rights and obligations of the Company under the Plan.

2. This Amendment shall be effective as of the consummation of the Merger.

3. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company and Holdings have each caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

WESTERN DIGITAL HOLDINGS, INC.

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.45.1

FIRST AMENDMENT TO THE WESTERN DIGITAL CORPORATION 1999 EMPLOYEE SEVERANCE PLAN FOR U.S. EMPLOYEES

This First Amendment (the "Amendment") to the Western Digital Corporation 1999 Employee Severance Plan For U.S. Employees (the "Plan") is made this 6th day of April, 2001 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in a document, effective as of December 1, 1999; and

WHEREAS, Section 6 of the Plan authorizes the Company to amend the Plan by written instrument signed by the Chief Executive Officer or the Vice President of Human Resources; and

WHEREAS, contemporaneous with the execution hereof, the Company, Western Digital Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("Holdings") and WD Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Holdings ("Merger Sub"), are entering into an Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001 (the "Merger Agreement"), pursuant to which (i) Merger Sub will be merged into the Company, (ii) all of the Company's outstanding capital stock will be converted on a share for share basis into capital stock of Holdings, (iii) the stockholders of the Company will become stockholders of Holdings, and (iv) the Company will become a wholly-owned subsidiary of Holdings (the "Merger"); and

WHEREAS, by virtue of the Merger, all of the Company's outstanding capital stock will be converted, on a share for share basis, into capital stock of Holdings, and as a result, each stockholder of the Company will become the owner of an identical number of shares of capital stock of Holdings; and

WHEREAS, in connection with the Merger, Holdings will change its name to "Western Digital Corporation" and the Company will change its name to "Western Digital Technologies, Inc."

NOW, THEREFORE, the Plan is amended as follows:

1. The name of the Plan is hereby changed to the "Western Digital Technologies, Inc. 1999 Employee Severance Plan for U.S. Employees."

2. Section 1 of the Plan is hereby amended by deleting "Western Digital Corporation" and inserting in lieu thereof "Western Digital Technologies, Inc."

3. Section 2 of the Plan is hereby amended by deleting "Western Digital Corporation" and inserting in lieu thereof "Western Digital Technologies, Inc."

4. Subsection 3.1(a)(ii) of the Plan is hereby amended by deleting "Western Digital Corporation" and inserting in lieu thereof "Western Digital Technologies, Inc."

5. Section 3.5 of the Plan is hereby amended by deleting "Western Digital Corporation" and inserting in lieu thereof "Western Digital Technologies, Inc."

6. Section 5.7 of the Plan is hereby amended in its entirety as follows:

> The Plan sponsor, Plan administrator, and agent for the service of legal process is:
>
> Plan Sponsor and Administrator:
> Western Digital Technologies, Inc.
> 20511 Lake Forest Drive
> Lake Forest, CA 92630
>
> Agent for Service of Process:
> Vice President of Human Resources
> Western Digital Technologies, Inc.
> 20511 Lake Forest Drive
> Lake Forest, CA 92630

7. This Amendment shall be effective as of the consummation of the Merger.

8. Except as expressly provided herein above, the provisions of the Plan shall continue in full force and effect as set forth herein.

IN WITNESS WHEREOF, the Company has caused this First Amendment to the Plan to be executed by its duly authorized officer on this 6th day of April, 2001.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL CORNELIUS
Name: Michael Cornelius
Title:

EXHIBIT 10.47.1

[GE CAPITAL COMMERCIAL FINANCE, INC. LETTERHEAD]

March 8, 2001

Western Digital Corporation
8105 Irvine Center Drive
Irvine, CA 92618
Attn: Mr. Steven M. Slavin
Vice President, Taxes and Treasurer

Re: First Amendment to Credit Agreement

Gentlemen:

Reference is made to (a) the Credit Agreement dated as of September 20, 2000 (including all annexes, exhibits and schedules thereto, as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among Western Digital Corporation ("Borrower"), the other credit parties party thereto, the lenders from time to time signatory thereto ("Lenders"), General Electric Capital Corporation, as administrative agent for Lenders (in such capacity, "Agent"), and Bank of America, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent") and (b) the open items letter agreement dated September 20, 2000, as amended by the Amendment to Open Items Letter dated as of October 19, 2000 (collectively, the "Open Items Letter"). Capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

Connex intends to form a wholly owned Subsidiary named SANavigator, Inc., a Delaware corporation ("SANavigator"). In connection with the formation of SANavigator, Borrower has requested that Co-Agents and Lenders (a) consent to the formation of SANavigator, (b) amend the definition of "Excluded Subsidiary" in the Credit Agreement to include SANavigator, and (c) amend the Open Items Letter, and Co-Agents and Lenders are willing to do so subject to the terms and conditions of this First Amendment to Credit Agreement ("First Amendment").

1. Ratification and Incorporation of Credit Agreement. Except as expressly modified under this First Amendment, (a) each Credit Party hereby acknowledges, confirms, and ratifies all of the terms and conditions set forth in, and all of its obligations under, the Credit Agreement, and (b) all of the terms and conditions set forth in the Credit Agreement are incorporated herein by this reference as if set forth in full herein.

2. Consent under Credit Agreement. Pursuant to Section 6.1 of the Credit Agreement, Borrower is prohibited from forming or acquiring or permitting any of its Subsidiaries from forming or acquiring, any Subsidiary (with certain exceptions) unless Co-Agents and Requisite

Lenders have given their prior written consent thereto. At the request of Borrower, Co-Agents and Requisite Lenders hereby consent to the formation by Connex of SANavigator.

3. Amendment to Credit Agreement. The definition of "Excluded Subsidiary" in Annex A of the Credit Agreement is hereby deleted in its entirety and the following is substituted therefor:

> "Excluded Subsidiaries" shall mean Connex, SageTree, Pacifica, Cameo Technologies, Inc, a Delaware corporation formerly known as WDC.NET, Inc., Keen Personal Media, Inc., a Delaware corporation, Keen Personal Technologies, Inc., a Delaware corporation, SANavigator, Inc., a Delaware corporation, and Targets that become "Excluded Subsidiaries" in accordance with the provisions of Section 6.1.

4. Extension of Deadline for Certain Open Items. At Borrowers' request, Agent agrees to extend the deadline for the occurrence of the Corporation Reorganization under and as defined in the Open Items Letter. Paragraph 10 of the Open Items Letter is deleted in its entirety and the following is substituted therefor:

> 10. If the Corporate Reorganization has not occurred on or before May 31, 2001, then (a) the Loan Documents shall be amended to exclude Intera Systems, Inc., a California corporation ("Intera"), and Aristos Logic Corporation, a California corporation ("Aristos"), as Excluded Investments, and (b) Borrower shall pledge its current interests in Intera and Aristos to Agent, for the benefit of Agent and Lenders, in whatever form such interests are in as of May 31, 2001, and deliver to Agent, for the benefit of Agent and Lenders, such current interests accompanied by duly executed instruments of transfer or assignment in blank in accordance with the terms of the Pledge Agreement and shall constitute "Pledged Collateral" thereunder; provided, that prior to May 31, 2001, Borrower shall have no duty whatsoever to preserve the Intera or Aristos investments and may deal with such investments in its sole discretion.

If Borrower fails to comply with the provisions of Paragraph 10 of the Open Items Letter, then such failure shall constitute an Event of Default under the Credit Agreement.

5. Conditions to Effectiveness. The effectiveness of this First Amendment is subject to satisfaction of each of the following conditions precedent:

(a) receipt by Co-Agents of a copy of this First Amendment duly executed by Borrower, each of the other Credit Parties, Co-Agents and Requisite Lenders;

(b) receipt by Co-Agents of a copy of the Second Amendment to Patent, Trademark and Copyright Security Agreement executed by Borrower, Co-Agents and Lenders; and

(c) the absence of any Defaults or Events of Default.

6. Entire Agreement. This First Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This First Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof. Except as otherwise expressly modified herein, the Loan Documents shall remain in full force and effect.

7. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or such other Credit Party has previously advised Co-Agents in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof. This First Amendment has been duly executed and delivered by each Credit Party and constitutes a legal, valid and binding Obligation of such Person, enforceable against such Person in accordance with its terms.

8. Miscellaneous.

(a) Counterparts. This First Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this First Amendment or the Consent by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

(b) Headings. Section headings used herein are for convenience of reference only, are not part of this First Amendment, and are not to be taken into consideration in interpreting this First Amendment.

(c) Governing Law. This First Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflict of laws.

(d) Effect. Upon the effectiveness of this First Amendment, from and after the date hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof" or words of like import shall mean and be a reference to the Credit Agreement as amended hereby and each reference in the other Loan Documents to the Credit Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(e) No Novation. Except as expressly provided in Sections 2, 3 and 4 of this First Amendment, the execution, delivery, and effectiveness of this First Amendment shall not (i) limit, impair, constitute a waiver of, or otherwise affect any right, power, or remedy of Co-Agents and Lenders under the Credit Agreement or any other Loan Document, (ii) constitute a waiver of any provision in the Credit Agreement or in any of the other Loan Documents, or (iii) alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements

contained in the Credit Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(f) Conflict of Terms. In the event of any inconsistency between the provisions of this First Amendment and any provision of the Credit Agreement or the Open Items Letter, the terms and provisions of this First Amendment shall govern and control.

9. Reaffirmation by Guarantors. Each Credit Party that is also a Guarantor, by its execution of this First Amendment, consents to the terms hereof and ratifies and reaffirms all of the provisions of the Guaranties.

[Remainder of Page Intentionally Left Blank]

Please indicate your acknowledgment and agreement to all of the foregoing by executing a copy of this letter where indicated below and returning it to the undersigned.

Very truly yours,

GENERAL ELECTRIC CAPITAL CORPORATION,
as Administrative Agent and a Lender

By: /s/ ROBERT S. YASUDA

Robert S. Yasuda
Duly Authorized Signatory

BANK OF AMERICA, N.A.,
as Documentation Agent and a Lender

By: /s/ STEPHEN E. ROSSI

Name: Stephen E. Rossi

Title: AVP

THE CIT GROUP/BUSINESS CREDIT, INC.,
as a Lender

By: /s/ DALE GEORGE

Name: Dale George

Title: Vice President

AGREED TO AND ACCEPTED BY:

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Name: Steven M. Slavin

Title: V.P. Taxes & Treasurer

[Signatures Continued on Following Page]

WESTERN DIGITAL (U.K.), LTD., a
corporation organized under the laws of
the United Kingdom

By: /s/ MICHAEL A. CORNELIUS
Name: Michael A. Cornelius
Title: Director

WESTERN DIGITAL (I.S.) LIMITED, a
corporation organized under
the laws of Ireland

By: /s/ MICHAEL A. CORNELIUS
Name: Michael A. Cornelius
Title: Director

EXHIBIT 10.47.2

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT ("Amendment") is entered into as of March 23, 2001, by and among WESTERN DIGITAL CORPORATION ("Borrower"), the other Credit Parties party thereto, the lenders from time to time signatory thereto (each individually a "Lender" and collectively the "Lenders"), GENERAL ELECTRIC CAPITAL CORPORATION, as administrative agent for Lenders (in such capacity, "Agent"), and BANK OF AMERICA, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent").

RECITALS

A. Borrower, the other Credit Parties party thereto, Lenders, and Co-Agents have entered into that certain Credit Agreement dated as of September 20, 2000, as amended by that certain First Amendment to Credit Agreement dated as of March 8, 2001 (collectively, "Credit Agreement"), pursuant to which Co-Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

B. Borrower has requested that Co-Agent and Lenders make certain amendments to the Credit Agreement and other Loan Documents, and Co-Agent and Lenders are willing to do so subject to the terms and conditions of this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the continued performance by Borrower and each other Credit Party of their respective promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, the other Credit Parties signatory hereto, Lenders, and Co-Agents hereby agree as follows:

1. Ratification and Incorporation of Credit Agreement and Other Loan Documents. Except as expressly modified under this Amendment, (a) each Credit Party hereby acknowledges, confirms, and ratifies all of the terms and conditions set forth in, and all of its obligations under, the Credit Agreement, and (b) all of the terms and conditions set forth in the Credit Agreement are incorporated herein by this reference as if set forth in full herein.

2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) The following new definitions of "Capital Expenditure Allocation," "Combined Expenditures" and "New Venture Investments" are added to Annex A of the Credit Agreement:

"Capital Expenditure Allocation" shall have the meaning assigned to it in Annex G.

"Combined Expenditures" shall mean, with respect to any Person at any date, the sum of such Person's Capital Expenditures and New Venture Investments as of such date.

"New Venture Investments" shall mean, with respect to any Person at any date, the aggregate amount of loans, advances, investments and payments by such Person to or in all Excluded Subsidiaries as of such date.

(b) The definition of "Excluded Subsidiary" in Annex A of the Credit Agreement is hereby deleted in its entirety and the following is substituted therefore:

"Excluded Subsidiaries" shall mean Connex, SageTree, Pacifica, Cameo Technologies, Inc, a Delaware corporation formerly known as WDC.NET, Inc., Keen Personal Media, Inc., a Delaware corporation, Keen Personal Technologies, Inc., a Delaware corporation, SANavigator, Inc., a Delaware corporation, Western Digital Ventures, Inc., a Delaware corporation, and Targets that become "Excluded Subsidiaries" in accordance with the provisions of Section 6.1.

(c) Paragraph (a) of Annex G to the Credit Agreement is hereby deleted in its entirety and the following is substituted therefor:

(a) Maximum Combined Expenditures. Borrower and its Subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make aggregate Combined Expenditures that exceed the Maximum Combined Expenditures amount set forth opposite such periods:

(A) No.	(B) Period	(C) Capital Expenditure Allocation	(D) Maximum Combined Expenditures
1	7/1/00 through 9/29/00	$10,000,000	$ 25,000,000
2	7/1/00 through 12/29/00	$26,000,000	$ 56,000,000
3	7/1/00 through 3/30/01	$41,000,000	$ 86,000,000
4	7/1/00 through 6/29/01	$55,000,000	$115,000,000
5	9/30/00 through 9/28/01	$66,000,000	$124,000,000
6	12/30/00 through 12/28/01	$65,000,000	$121,000,000
7	3/31/01 through 3/29/02	$63,000,000	$116,000,000
8	6/30/01 through 6/28/02	$60,000,000	$110,000,000
9	9/29/01 through 9/27/02	$57,000,000	$106,000,000
10	12/29/01 through 12/27/02	$58,000,000	$106,000,000
11	3/30/02 through 3/28/03	$61,000,000	$108,000,000
12	6/29/02 through 6/27/03	$65,000,000	$110,000,000

provided; that, beginning with the Fiscal Year ending 6/29/01 and for each Fiscal Year thereafter, to the extent that the capital expenditure allocation identified in column (C) above (the "Capital Expenditure Allocation") for any such Fiscal Year (i.e., Year 1) exceeds the amount of Capital Expenditures actually made by Borrower and such Subsidiaries during such Fiscal Year (such excess being the "Excess Amount"), then the amount of permitted Capital Expenditures for each period above that ends during the immediately succeeding Fiscal Year (i.e., Year 2) will be increased by the positive amount (the "Carry Over Amount") equal to (i) the lesser of (A) the Excess Amount and (B) 25% of the amount of the Capital Expenditure Allocation for such Fiscal Year (i.e., Year 1), minus (ii) that portion of the Excess Amount, if any, expended during a previous period during such succeeding Fiscal Year. For purposes of measuring compliance herewith, the Carry Over Amount shall be deemed to be the last amount spent on Capital Expenditures in any Fiscal Quarter.

(d) The following is hereby added as paragraph (d) of Annex G to the Credit Agreement:

> (d) Borrower and its Subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make New Venture Investments in an aggregate amount that exceed $60,000,000 at any time for the 12-month period then ended.

(e) The following is hereby added as paragraph (e) of Annex G to the Credit Agreement:

> (e) Borrower and its Subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make aggregate Capital Expenditures that exceed the total EBITDA for Borrower and its Subsidiaries on a consolidated basis, in each case for the 12-month period then ended (or with respect to each of the Fiscal Quarters ending on or prior to March 30, 2001, the period commencing on July 1, 2000, and ending on the last day of such Fiscal Quarter); provided, that with respect to the nine month period from July 1, 2000, through March 30, 2001, of the 2001 Fiscal Year, the aggregate Capital Expenditures of Borrower and its Subsidiaries (other than the Excluded Subsidiaries) for such period shall not exceed the sum of (i) EBITDA for Borrower and its Subsidiaries (other than the Excluded Subsidiaries) for such period on a consolidated basis plus (ii) $5,000,000.

3. Consent under Credit Agreement. Pursuant to Section 6.1 of the Credit Agreement, Borrower is prohibited from forming or acquiring any Subsidiary (with certain exceptions) unless Co-Agents and Requisite Lenders have given their prior written consent thereto. At the request of Borrower, Co-Agents and Requisite Lenders hereby consent to the formation by Borrower of Western Digital Ventures, Inc., a Delaware corporation.

4. Conditions to Effectiveness. The effectiveness of this Amendment is subject to satisfaction of each of the following conditions:

(a) receipt by Co-Agents of a copy of this Second Amendment duly executed by Borrower, each of the other Credit Parties, Co-Agents and Requisite Lenders; and

(b) the absence of any Defaults or Events of Default as of the date hereof.

5. Entire Agreement. This Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof.

6. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or any other Credit Party, as applicable, has previously advised Co-Agents in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof.

7. Reaffirmation by Guarantors. Each Credit Party that is also a Guarantor, by its execution of this Amendment, consents to the terms hereof and ratifies and reaffirms all of the provisions of the Guaranties.

8. Miscellaneous.

(a) Counterparts. This Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

(b) Headings. Section headings used herein are for convenience of reference only, are not part of this Amendment, and are not to be taken into consideration in interpreting this Amendment.

(c) Recitals. The recitals set forth at the beginning of this Amendment are true and correct, and such recitals are incorporated into and are a part of this Amendment.

(d) Effect. Upon the effectiveness of this Amendment, from and after the date hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby and each reference in the other Loan Documents to the Credit Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(e) No Novation. Except as expressly provided in Sections 2 and 3 of this Amendment, the execution, delivery, and effectiveness of this Amendment shall not (i) limit, impair, constitute a waiver of, or otherwise affect any right, power, or remedy of Co-Agents or any Lender under the Credit Agreement or any other Loan Document, (ii) constitute a waiver of any provision in the Credit Agreement or in any of the other Loan Documents, or (iii) alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(f) Conflict of Terms. In the event of any inconsistency between the provisions of this Amendment and any provision of the Credit Agreement, the terms and provisions of this Amendment shall govern and control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Second Amendment to Credit Agreement has been duly executed as of the date first written above.

GENERAL ELECTRIC CAPITAL CORPORATION,
as Administrative Agent and a Lender

By: /s/ ROBERT S. YASUDA

Robert S. Yasuda
Duly Authorized Signatory

BANK OF AMERICA, N.A.,
as Documentation Agent and a Lender

By: /s/ STEPHEN E. ROSSI

Name: Stephen E. Rossi

Title: AVP

THE CIT GROUP/BUSINESS CREDIT, INC.,
as a Lender

By: /s/ DALE GEORGE

Name: Dale George

Title: Vice President

By: /s/ STEVEN M. SLAVIN

Name: Steven M. Slavin

Title: Vice President, Taxes & Treasurer

[Signatures Continued on Following Page]

WESTERN DIGITAL (U.K.), LTD., a
corporation organized under the laws
of the United Kingdom

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius

Title: Assistant Secretary

WESTERN DIGITAL (I.S.) LIMITED,
a corporation organized under
the laws of Ireland

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius

Title: Director

EXHIBIT 10.47.3

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT ("Amendment") is entered into as of April 7, 2001, by and among WESTERN DIGITAL TECHNOLOGIES, INC., a Delaware corporation formerly known as Western Digital Corporation ("Borrower"), the other Credit Parties party hereto, the lenders signatory hereto (each individually a "Lender" and collectively the "Lenders"), GENERAL ELECTRIC CAPITAL CORPORATION, as administrative agent for Lenders (in such capacity, "Agent"), and BANK OF AMERICA, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent").

RECITALS

A. Borrower, the other Credit Parties party thereto, Lenders, and Co-Agents have entered into the Credit Agreement dated as of September 20, 2000, as amended by the First Amendment to Credit Agreement dated as of March 8, 2001, and the Second Amendment to Credit Agreement dated as of March 23, 2001 (collectively, "Credit Agreement"), pursuant to which Co- Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

B. Borrower has requested in the letter attached hereto as Appendix A that Co-Agent and Lenders make certain amendments to, and consent to certain matters under, the Credit Agreement and other Loan Documents, and Co-Agent and Lenders are willing to do so subject to the terms and conditions of this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the continued performance by Borrower and each other Credit Party of their respective promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, the other Credit Parties signatory hereto, Lenders, and Co-Agents hereby agree as follows:

1. Ratification and Incorporation of Credit Agreement and Other Loan Documents. Except as expressly modified under this Amendment, (a) each Credit Party hereby acknowledges, confirms, and ratifies all of the terms and conditions set forth in, and all of its obligations under, the Credit Agreement, and (b) all of the terms and conditions set forth in the Credit Agreement are incorporated herein by this reference as if set forth in full herein.

2. Amendments to Credit Agreement. The Credit Agreement and other Loan Documents are hereby amended as follows:

(a) Section 5.4(c) of the Credit Agreement is amended by deleting each reference to "Guarantor" and substituting "Guarantor (other than Holdings)" in lieu thereof.

(b) Section 6.14 of the Credit Agreement is amended by (i) deleting the "and" immediately preceding clause (e) thereof, (ii) replacing the period at the end thereof with ", and" and (iii) adding the following new clause (f) at the end thereof:

> (f) dividends or other distributions made by Borrower to Holdings out of legally available funds to enable Holdings to pay its reasonable legal, accounting and operational expenses incurred in the ordinary course in an aggregate amount not to exceed $750,000 in any Fiscal Year.

(c) Section 9.8 of the Credit Agreement is amended by deleting each reference to "Guarantor" and substituting "Guarantor (other than Holdings)" in lieu thereof.

(d) The definition of "Borrower" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

> "Borrower" shall mean Western Digital Technologies, Inc., a Delaware corporation formerly known as Western Digital Corporation.

(e) The definition of "Change of Control" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

> "Change of Control" means any of the following: (a) any Person or group of Persons (within the meaning of the Securities Exchange Act) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act) of 20% or more of the issued and outstanding shares of capital Stock of Holdings having the right to vote for the election of directors of Holdings under ordinary circumstances; (b) the occurrence of a change in the composition of the board of directors of Holdings as a result of which fewer than a majority of all directors are Incumbent Directors (as defined below); (c) Borrower shall cease to own and control all of the economic and voting rights associated with all of the outstanding capital Stock of any of its Subsidiaries; and (d) Holdings shall cease to own and control all of the economic and voting rights associated with all of the outstanding capital Stock of Borrower. For purposes of this definition, "Incumbent Director" means any director who is either (i) a director of Holdings as of the date on which the Third Amendment becomes effective, or (ii) a director who is elected or nominated for election to the board of directors of Holdings with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include any individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to Holdings).

(f) The definition of "Excluded Subsidiaries" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

> "Excluded Subsidiaries" shall mean Connex, SageTree, Pacifica, Cameo Technologies, Inc, a Delaware corporation formerly known as WDC.NET, Inc., Keen Personal Media, Inc., a Delaware corporation, Keen Personal Technologies,

Inc., a Delaware corporation, SANavigator, Inc., a Delaware corporation, Western Digital Ventures, Inc., a Delaware corporation, WD Merger Sub, Inc., a Delaware corporation, and Targets that become "Excluded Subsidiaries" in accordance with the provisions of Section 6.1.

(g) The definition of "Financial Statements" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"Financial Statements" shall mean the consolidated and consolidating income statements, statements of cash flows and balance sheets of Borrower or Holdings, as the case may be, delivered in accordance with Section 3.4 and Annex E.

(h) The definition of "Guarantors" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"Guarantors" shall mean each of WD UK, WD IS and Holdings, and each other Person, if any, that executes a guaranty or other similar agreement in favor of Agent, for the benefit of Co-Agents and Lenders, in connection with the transactions contemplated by the Agreement and the other Loan Documents.

(i) The definition of "Subordinated Debt" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"Subordinated Debt" shall mean the Indebtedness of Borrower and Holdings evidenced by the Subordinated Notes and the other Subordinated Debt Documents and any other Indebtedness of any Credit Party subordinated to the Obligations in a manner and form satisfactory to Co-Agents and Lenders in their sole discretion, as to right and time of payment and as to any other rights and remedies thereunder, including, in each case, any refinancing thereof permitted under Section 6.14.

(j) The definition of "Subordinated Indenture" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"Subordinated Indenture" shall mean the Indenture dated as of February 18, 1998, between Borrower, as Issuer, and State Street Bank and Trust Company of California, N.A., as Trustee, as amended by the First Supplemental Indenture dated as of April 6, 2001, by and among Borrower, Holdings, and State Street Bank and Trust Company of California, N.A., as Trustee.

(k) The definition of "Subordinated Notes" in Annex A of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"Subordinated Notes" shall mean those certain Zero Coupon Convertible Subordinated Debentures due 2018, issued by Borrower in an aggregate original principal amount of $1,297,200,000.

(l) The following new definitions are added to Annex A of the Credit Agreement in appropriate alphabetical order:

"Holdings" shall mean Western Digital Corporation, a Delaware corporation formerly known as Western Digital Holdings, Inc.

"Third Amendment" means the Third Amendment to Credit Agreement dated as of April 7, 2001.

(m) Annex C of the Credit Agreement is amended by (i) deleting each reference to "Guarantor" and substituting "Guarantor (other than Holdings)" in lieu thereof, and (ii) deleting the reference to "Affiliates" and substituting "Affiliates (other than Holdings)" in lieu thereof.

(n) Annex E of the Credit Agreement is deleted in its entirety, and the revised version of Annex E attached hereto as Appendix B is substituted in lieu thereof.

(o) Subsection (C) of Annex I of the Credit Agreement is deleted in its entirety, and the following is substituted in lieu thereof:

(C) If to Borrower, at

Western Digital Technologies, Inc.
20511 Lake Forest Drive
Lake Forest, California 92630-7741
Attention: Mr. Steven M. Slavin
Telephone: (949) 672-7000
Facsimile: (949) 672-5495

With copies to:

Western Digital Technologies, Inc.
20511 Lake Forest Drive
Lake Forest, California 92630-7741
Attention: Michael A. Cornelius, Esq., General Counsel
Telephone: (949) 672-7000
Facsimile: (949) 672-7837

(p) Schedule 6.5 of the Credit Agreement is deleted in its entirety, and the revised version of Schedule 6.5 attached hereto as Appendix C is substituted in lieu thereof.

(q) All references in the Credit Agreement or the other Loan Documents, in each case as in effect immediately prior to the effectiveness of this Amendment, to "Western Digital Corporation, a Delaware corporation" shall be deleted and replaced by "Western Digital Technologies, Inc., a Delaware corporation formerly known as Western Digital Corporation."

3. Consents under Credit Agreement.

(a) Pursuant to Section 6.5 of the Credit Agreement, Borrower is prohibited from making any changes to its capital structure as described in Disclosure Schedule 6.5 unless Co-Agents and Requisite Lenders have given their prior written consent thereto. At the request of Borrower, Co-Agents and Requisite Lenders hereby consent to Holdings entering into the First Supplemental Indenture dated as of April 6, 2001, by and among Borrower, Holdings, and State Street Bank and Trust Company of California, N.A., as Trustee, and becoming a co-obligor with respect to the Subordinated Notes and the other Subordinated Debt Documents.

(b) Pursuant to Section 6.1 of the Credit Agreement, Borrower is prohibited from forming or acquiring any Subsidiary (with certain exceptions) unless Co-Agents and Requisite Lenders have given their prior written consent thereto. At the request of Borrower, Co- Agents and Requisite Lenders hereby consent to the formation by Borrower of Western Digital Holdings, Inc., a Delaware corporation formerly known as The Western Digital Group, Inc., and WD Merger Sub, Inc., a Delaware corporation.

4. Conditions to Effectiveness. The effectiveness of this Amendment is subject to satisfaction of each of the following conditions:

(a) receipt by Co-Agents of this Amendment duly executed by Borrower, each of the other Credit Parties, Co-Agents and Requisite Lenders;

(b) receipt by Co-Agents of an original Continuing Guaranty duly executed by Holdings and Agent;

(c) receipt by Agent of a copy of an opinion, in form and substance satisfactory to Agent and its counsel, prepared by Houlihan Lokey Howard & Zukin with respect to the solvency of Borrower, after giving effect to the consummation of the Corporate Reorganization transaction described on Disclosure Schedule (6.5);

(d) receipt by Agent of (i) a certificate of the Secretary of Borrower certifying that attached to such certificate are complete and correct copies of resolutions duly adopted by Borrower's Board of Directors that authorize the execution and delivery of the documents necessary to effect the Corporate Reorganization, and (ii) a certificate of the Secretary of Holdings certifying that attached to such certificate are complete and correct copies of resolutions duly adopted by Holdings' Board of Directors that authorize the execution and delivery by Holding of a Continuing Guaranty, in each case in form and substance satisfactory to Agent and its counsel;

(e) receipt by Agent of a UCC-2 amendment with respect to each UCC-1 financing statement and fixture filing set forth in Appendix B to the Schedule of Documents filed against Borrower, amending such financing statement to reflect Western Digital Technologies, Inc., as debtor; and

(f) the absence of any Defaults or Events of Default as of the date hereof.

5. Entire Agreement. This Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof.

6. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or any other Credit Party, as applicable, has previously advised Co-Agents in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof.

7. Reaffirmation by Guarantors. Each Credit Party that is also a Guarantor, by its execution of this Amendment, consents to the terms hereof and ratifies and reaffirms all of the provisions of the Guaranties.

8. Miscellaneous.

(a) Counterparts. This Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

(b) Headings. Section headings used herein are for convenience of reference only, are not part of this Amendment, and are not to be taken into consideration in interpreting this Amendment.

(c) Recitals. The recitals set forth at the beginning of this Amendment are true and correct, and such recitals are incorporated into and are a part of this Amendment.

(d) Effect. Upon the effectiveness of this Amendment, from and after the date hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby and each reference in the other Loan Documents to the Credit Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(e) No Novation. Except as expressly provided in Sections 2 and 3 of this Amendment, the execution, delivery, and effectiveness of this Amendment shall not (i) limit, impair, constitute a waiver of, or otherwise affect any right, power, or remedy of Co-Agents or any Lender under the Credit Agreement or any other Loan Document, (ii) constitute a waiver of any provision in the Credit Agreement or in any of the other Loan Documents, or (iii) alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(f) Conflict of Terms. In the event of any inconsistency between the provisions of this Amendment and any provision of the Credit Agreement, the terms and provisions of this Amendment shall govern and control.

IN WITNESS WHEREOF, this Third Amendment to Credit Agreement has been duly executed as of the date first written above.

GENERAL ELECTRIC CAPITAL CORPORATION,
as Administrative Agent and a Lender

By: /s/ ROBERT S. YASUDA

Robert S. Yasuda
Duly Authorized Signatory

BANK OF AMERICA, N.A.,
as Documentation Agent and a Lender

By: /s/ STEPHEN E. ROSSI

Name: Stephen E. Rossi

Title: AVP

THE CIT GROUP/BUSINESS CREDIT, INC.,
as a Lender

By: /s/ DALE GEORGE

Name: Dale George

Title: Vice President

By: /s/ STEVEN M. SLAVIN

Name: Steven M. Slavin

Title: Vice President, Taxes & Treasurer

[Signatures Continued on Following Page]

WESTERN DIGITAL (U.K.), LTD., a
corporation organized under the laws
of the United Kingdom

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius

Title: Director

WESTERN DIGITAL (I.S.) LIMITED, a
corporation organized under
the laws of Ireland

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius

Title: Director

EXHIBIT 10.48

CONTINUING GUARANTY

THIS CONTINUING GUARANTY (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Guaranty") dated as of April 7, 2001, is made by WESTERN DIGITAL CORPORATION, a Delaware corporation formerly known as Western Digital Holdings, Inc. ("Guarantor"), in favor of GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation, as administrative agent (in such capacity, "Administrative Agent" or "Agent") for the lenders ("Lenders") from time to time parties to the Credit Agreement (as defined below).

RECITALS

A. Western Digital Technologies, Inc., a Delaware corporation formerly known as Western Digital Corporation ("Borrower"), the other Credit Parties party thereto, Agent, Bank of America, N.A., as documentation agent for Lenders ("Documentation Agent"; Administrative Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent"), and Lenders have entered into that certain Credit Agreement dated as of September 20, 2000, as amended by the First Amendment to Credit Agreement dated as of March 8, 2001, the Second Amendment to Credit Agreement dated as of March 23, 2001, and the Third Amendment to Credit Agreement of even date herewith (collectively, "Credit Agreement"), pursuant to which Co-Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein.

B. Guarantor is the record and beneficial holder of all of the shares of stock of Borrower and as such derives direct and indirect economic benefits from the financial accommodations provided to Borrower pursuant to the Credit Agreement.

C. Borrower previously requested certain amendments to the Credit Agreement and Requisite Lenders' consent to certain changes in Borrower's and Credit Parties' capital structure in connection with the Corporate Reorganization (as defined in the Credit Agreement).

D. Co-Agents are concurrently herewith entering into the Third Amendment to Credit Agreement of even date herewith, but only upon the condition, among others, that Guarantor shall have executed and delivered this Guaranty.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor and Agent agree as follows:

1. DEFINED TERMS; CERTAIN MATTERS OF CONSTRUCTION.

Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

2. THE GUARANTY.

2.1 Guaranty of Guaranteed Obligations. Guarantor hereby unconditionally guarantees to Agent, for the benefit of Co-Agents and Lenders, and any of their respective successors, endorsees, transferees and assignees, the prompt payment (whether at stated maturity, by acceleration or otherwise) and performance of the Obligations of Borrower (such Obligations of Borrower hereinafter the "Guaranteed Obligations"). Guarantor agrees that this Guaranty is a guaranty of payment and performance and not of collection, and that its Obligations under this Guaranty shall be primary, absolute and unconditional, irrespective of, and unaffected by:

(a) the genuineness, validity, regularity, enforceability or any future amendment of or change in this Guaranty, any other Loan Document or any other agreement, document or Instrument to which Guarantor or any Credit Party is or may become a party;

(b) the absence of any action to enforce this Guaranty or any other Loan Document or the waiver or consent by any Co-Agent or any Lender with respect to any of the provisions thereof;

(c) the existence, value or condition of, or the failure to perfect Agent's Lien (for the benefit of Co-Agents and Lenders) against, any Collateral for the Obligations or any action, or the absence of any action, by Agent in respect thereof (including the release of any such Collateral);

(d) the insolvency of any Credit Party; or

(e) any other action or circumstance that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor;

it being agreed by Guarantor that its Obligations under this Guaranty shall not be discharged until the Termination Date. Guarantor shall be regarded, and shall be in the same position, as a principal obligor with respect to the Guaranteed Obligations. Guarantor agrees that any notice or directive given at any time to Agent that is inconsistent with the waiver in the immediately preceding sentence shall be null and void and may be ignored by Co-Agents and Lenders, and, in addition, may not be pleaded or introduced as evidence in any litigation relating to this Guaranty for the reason that such pleading or introduction would be at variance with the written terms of this Guaranty, unless Co- Agents and Lenders have specifically agreed otherwise in writing. Guarantor and Agent acknowledge and agree that the foregoing waivers are of the essence of the transaction contemplated by the Loan Documents and that, but for this Guaranty and such waivers, Co-Agents and Lenders would decline to enter into the Third Amendment.

2.2 Demand by Agent. In addition to the terms of the Guaranty set forth in Section 2.1, and in no manner imposing any limitation on such terms, it is expressly understood and agreed that if, at any time, any of the Guaranteed Obligations are declared to be immediately due and payable, then Guarantor shall, without demand, pay to the holders of the Guaranteed Obligations the entire outstanding amount of the Guaranteed Obligations to Agent, for the benefit of Co-Agents and Lenders. Payment by Guarantor shall be made to Agent, for the benefit of Co-Agents and Lenders, in immediately available funds in Dollars to an account designated by Agent or at the address set

forth herein for the giving of notice to Agent or at any other address that may be specified in writing from time to time by Agent, and shall be credited and applied to the Guaranteed Obligations.

2.3 Enforcement of Guaranty. Agent shall have no obligation to proceed against Borrower or any Credit Party or any Collateral pledged to secure the Guaranteed Obligations (although it may, at its option, so proceed) before seeking satisfaction from Guarantor, and Agent may proceed, prior or subsequent to, or simultaneously with, the enforcement of Agent's rights hereunder, to exercise any right or remedy that it may have (for the benefit of Co-Agents and Lenders) against any Collateral as a result of any Lien it may have (for the benefit of Co-Agents and Lenders) as security for all or any portion of the Guaranteed Obligations. Notwithstanding anything to the contrary contained herein or in the other Loan Documents, this Guaranty does not constitute a pledge or security agreement and Guarantor's execution and delivery of this Guaranty does not grant Co-Agents and Lenders any Lien in any property or other collateral, including the capital Stock of Borrower, now or hereafter belonging to Guarantor.

2.4 Waiver. In addition to any other waivers contained in this Guaranty, Guarantor waives, and agrees that it shall not at any time insist upon, plead or in any other manner claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, marshaling of assets or redemption laws, or exemption, whether now or at any time hereafter in force, that may delay, prevent or otherwise affect the performance by Guarantor of its Obligations under, or the enforcement by Agent, for the benefit of Co-Agents and Lenders, of, this Guaranty. Guarantor hereby waives diligence, presentment and demand (whether for non-payment or protest or of acceptance, maturity, extension of time, change in nature or form of the Obligations, acceptance of further security, release of further security, composition or agreement arrived at as to the amount of, or the terms of, the Guaranteed Obligations, notice of adverse change in Borrower's financial condition or any other fact that might increase the risk to Guarantor) with respect to any of the Obligations or all other demands whatsoever and waives the benefit of all provisions of law that are or might be in conflict with the terms of this Guaranty.

2.5 Benefit of Guaranty. The provisions of this Guaranty are for the benefit of Co-Agents, Lenders and their respective successors, transferees, endorsees and assigns, and nothing herein contained shall impair, as between any Credit Party, on the one hand, and Co-Agents and Lenders, on the other hand, the Obligations of any Credit Party under the Loan Documents. This Guaranty binds Guarantor and Guarantor shall not assign, transfer, or endorse this Guaranty. In the event all or any part of the Guaranteed Obligations are transferred, indorsed or assigned by Agent or any Lender to any Person or Persons, any reference to "Agent" or "Lender" herein shall be deemed to refer equally to such Person or Persons.

2.6 Modification of Guaranteed Obligations. Guarantor hereby acknowledges and agrees that Agent, for the benefit of Co-Agents and Lenders, may at any time or from time to time, with or without the consent of, or notice to, Guarantor:

(a) change or extend the manner, place or terms of payment of, or renew or alter all or any portion of, the Guaranteed Obligations;

(b) take any action under or in respect of the Loan Documents in the exercise of any remedy, power or privilege contained therein or available to it at law, in equity or otherwise, or waive or refrain from exercising any such remedies, powers or privileges;

(c) amend or modify, in any manner whatsoever, any of the Loan Documents;

(d) extend or waive the time for any Credit Party's performance of, or compliance with, any term, covenant or agreement on its part to be performed or observed under any of the Loan Documents, or waive such performance or compliance or consent to a failure of, or departure from, such performance or compliance;

(e) take and hold Collateral for the payment of the Guaranteed Obligations guaranteed hereby or sell, exchange, release, dispose of, or otherwise deal with, any property pledged, mortgaged or conveyed, or in which Agent, for the benefit of Co-Agents and Lenders, has been granted a Lien, to secure any Obligations, in each case as permitted by the Loan Documents;

(f) release any Person who may be liable in any manner for the payment of any amounts owed by Guarantor or any Credit Party to any Co-Agent or any Lender;

(g) modify or terminate the terms of any intercreditor or subordination agreement pursuant to which claims of other creditors of Guarantor or any Credit Party are subordinated to the claims of any Co-Agent or any Lender; or

(h) apply any sums paid by any Person and realized in any manner to any amounts owing by Guarantor or any Credit Party to any Co-Agent or any Lender in the manner provided in the Credit Agreement;

and Guarantor acknowledges and agrees that neither any Co-Agent nor any Lender shall incur any liability to Guarantor as a result of any of the foregoing, and no such action shall impair or release the Obligations of Guarantor.

2.7 Reinstatement. This Guaranty shall remain in full force and effect and continue to be effective should any petition be filed by or against Guarantor or any Credit Party for liquidation or reorganization, should Guarantor or any Credit Party become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of Guarantor's or such Credit Party's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Guaranteed Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any Co-Agent or any Lender, whether as a "voidable preference," "fraudulent transfer," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Guaranteed Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

2.8 Deferral of Subrogation, Etc. Notwithstanding anything to the contrary in this Guaranty, or in any other Loan Document, Guarantor hereby:

(a) expressly and irrevocably waives, on behalf of itself and its successors and assigns (including any surety) until the Termination Date, any and all rights at law or in equity to subrogation, to reimbursement, to exoneration, to contribution, to indemnification, to setoff or to any other rights that could accrue to a surety against a principal, to a guarantor against a principal, to a guarantor against a maker or obligor, to an accommodation party against the party accommodated, to a holder or transferee against a maker, or to the holder of any claim against any Person and that Guarantor may have or hereafter acquire against any Credit Party in connection with or as a result of Guarantor's execution, delivery or performance of this Guaranty, or any other documents to which Guarantor is a party or otherwise; and

(b) acknowledges and agrees that (i) this waiver is intended to benefit Co-Agents and Lenders and shall not limit or otherwise affect Guarantor's liability hereunder or the enforceability of this Guaranty, and (ii) Co-Agents and Lenders and their respective successors and assigns are intended third party beneficiaries of the waivers and agreements set forth in this Section 2.8 and their rights under this Section 2.8 shall survive payment in full of the Guaranteed Obligations.

2.9 Election of Remedies. If Agent may, under applicable law, proceed to realize benefits under any of the Loan Documents giving Agent a Lien (for the benefit of Co-Agents and Lenders) upon any Collateral owned by any Credit Party, either by judicial foreclosure or by nonjudicial sale or enforcement, then Agent may, at its sole option, determine which of its remedies or rights it may pursue without affecting any of such rights and remedies under this Guaranty. If, in the exercise of any of its rights and remedies, Agent shall forfeit any of its rights or remedies, including its right to enter a deficiency judgment against any Credit Party, whether because of any applicable laws pertaining to "election of remedies" or the like, Guarantor hereby consents to such action by Agent and waives any claim based upon such action, even if such action by Agent shall result in a full or partial loss of any rights of subrogation that Guarantor might otherwise have had but for such action by Agent. Any election of remedies that results in the denial or impairment of the right of Agent to seek a deficiency judgment against any Credit Party shall not impair Guarantor's obligation to pay the full amount of the Guaranteed Obligations, subject to Section 11. In the event Agent shall bid at any foreclosure or trustee's sale or at any private sale permitted by law or the Loan Documents, Agent may bid all or less than the amount of the Guaranteed Obligations and the amount of such bid need not be paid by Agent but shall be credited against the Guaranteed Obligations. The amount of the successful bid at any such sale shall be conclusively deemed to be the fair market value of the collateral and the difference between such bid amount and the remaining balance of the Guaranteed Obligations shall be conclusively deemed to be the amount of the Guaranteed Obligations guaranteed under this Guaranty, notwithstanding that any present or future law or court decision or ruling may have the effect of reducing the amount of any deficiency claim to which Co-Agents and Lenders might otherwise be entitled but for such bidding at any such sale.

2.10 Subordination.

(a) Guarantor hereby agrees that, until the Termination Date, all obligations and all indebtedness of Borrower to Guarantor, including any and all present and future indebtedness regardless of its nature or manner of origination now or hereafter to become due and owing by Borrower to Guarantor (collectively, the "Subordinated Indebtedness"), are hereby subordinated and postponed and shall be inferior, in all respects, to the Obligations.

(b) In no circumstance shall any Subordinated Indebtedness be entitled to any collateral security; provided, that in the event any such collateral security exists, Guarantor hereby agrees that any now existing or hereafter arising Lien upon any of the assets of Borrower in favor of Guarantor, whether created by contract, assignment, subrogation, reimbursement, indemnity, operation of law, principles of equity or otherwise, shall be junior and inferior to, and is hereby subordinated in priority to any now existing or hereafter arising Liens in favor of Agent, for the benefit of Co-Agents and Lenders, in and against the Collateral, regardless of the time, manner or order of creation, attachment or perfection of the respective Liens.

(c) Except as expressly permitted in the Credit Agreement, Guarantor hereby agrees that it shall not assert, collect, accept payment on or enforce any of the Subordinated Indebtedness or take collateral or other security to secure payment of the Subordinated Indebtedness until the Termination Date. Guarantor shall not demand payment of, accelerate the maturity of, or declare a default or event of default under the Subordinated Indebtedness until the Termination Date. Except as expressly permitted in the Credit Agreement, Guarantor shall not cause or permit Borrower to make or give, and Guarantor shall not receive or accept, payment in any form (whether direct or indirect, including by transfer to an Affiliate or Subsidiary of Borrower or Guarantor) on account of the Subordinated Indebtedness, make any transfers in respect of the Subordinated Indebtedness without the express prior written consent of Agent (which consent may be withheld for any reason in Agent's sole discretion), or give any collateral security for the Subordinated Indebtedness. Any payment, transfer, or collateral security so made or given by Borrower and received or accepted by Guarantor, without the express prior written consent of Agent, shall be held in trust by Guarantor for the account of Agent (for the benefit of Co-Agents and Lenders), and Guarantor shall immediately turn over, in kind, any such payment to Agent for application in reduction of, or (in the case of property other than cash) as security for, the Obligations of Guarantor hereunder.

3. REPRESENTATIONS AND WARRANTIES.

Guarantor makes the following representations and warranties to Co-Agents and Lenders, each and all of which shall survive the execution and delivery of this Guaranty:

3.1 Corporate Existence; Compliance with Law. Guarantor (i) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation; (ii) is duly qualified to do business and is in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified would not result in exposure to losses, damages or liabilities in excess of $100,000; (iii) has the requisite corporate power and authority and the legal right to own, pledge, mortgage and operate its properties, to lease the property it operates under lease, and to conduct its business as now, heretofore and proposed to be conducted; (iv) has all licenses, permits, consents or approvals from or by, and has made all material filings with, and has given all notices to, all Governmental Authorities having jurisdiction, to the extent required for such ownership,

operation and conduct; (v) is in compliance with its charter and by-laws; and (vi) is in compliance with all applicable provisions of law, except where the failure to comply, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect (as defined below). As used herein, "Material Adverse Effect" shall mean a material adverse effect on (a) the business, assets, operations or financial condition of Guarantor and its Subsidiaries considered as a whole, (b) Guarantor's ability to pay any of the Guaranteed Obligations in accordance with the terms of this Guaranty, or (c) any Co-Agent's or any Lender's rights and remedies under this Guaranty and the other Loan Documents.

3.2 Executive Offices. Guarantor's executive office and principal place of business are as set forth in Schedule I hereto.

3.3 Corporate Power; Authorization; Enforceable Guaranteed Obligations. The execution, delivery and performance of this Guaranty are within Guarantor's corporate power, have been duly authorized by all necessary or proper corporate action, including the consent of stockholders where required, are not in contravention of any provision of Guarantor's charter or by-laws, do not violate any law or regulation, or any order or decree of any Governmental Authority (each, a "Requirement of Law"), do not conflict with or result in the breach of, or constitute a default under, or accelerate or permit the acceleration of any performance required by, any indenture, mortgage, deed of trust, lease, agreement, or other instrument to which Guarantor is a party or by which Guarantor or any of its property is bound (each, a "Contractual Obligation"), do not result in the creation or imposition of any Lien upon any of the property of Guarantor, and the same do not require the consent or approval of any Governmental Authority or any other Person. This Guaranty shall have been duly executed and delivered for the benefit of or on behalf of Guarantor, and shall then constitute a legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms.

3.4 Solvency. Guarantor is Solvent.

3.5 No Setoff, Defense, or Counterclaim. The Guaranteed Obligations are not subject to any setoff or defense of any kind against Agent, any Lender or Borrower, and Guarantor specifically waives its right to assert any such defense or right of setoff. The Guaranteed Obligations shall not be subject to any counterclaims, setoffs, or defenses against Agent, any Lender or any Credit Party that may arise in the future, except for (a) any defense of prior performance or payment based on the occurrence of the Termination Date, or (b) any defense based on any applicable provision of the Code requiring that the Collateral be disposed of in a commercially reasonable manner that Guarantor or any Credit Party may have or assert.

3.6 Payment of Taxes. Guarantor has paid all Taxes imposed by any Governmental Authority due and payable by Guarantor other than those that are being contested in good faith by appropriate proceedings and for which (i) adequate reserves have been established in accordance with GAAP, (ii) no Lien shall be imposed on the assets of Guarantor to secure payment of such Taxes or claims and such contest is maintained and prosecuted continuously and with diligence and operates to suspend collection or enforcement of suchTaxes or claims, (iii) none of the assets of Guarantor become subject to forfeiture or loss as a result of such contest (other than cash used to pay such Taxes or claims), and (iv) Guarantor shall promptly pay or discharge such contested Taxes or claims and all additional charges, interest, penalties and expenses, if any, and shall deliver to Co-Agents evidence acceptable to each Co-Agent of such compliance, payment or discharge, if such contest is terminated or discontinued adversely to Guarantor or the conditions set forth in this Section 3.6 are no longer met.

3.7 No Violation. Guarantor is not in violation of any Requirement of Law or Contractual Obligation, except where such violation, individually or in the aggregate, could not be reasonably be expected to have a Material Adverse Effect.

3.8 Litigation. No litigation, investigation or proceeding of any Governmental Authority is pending or, to the knowledge of Guarantor, threatened against Guarantor.

4. NEGATIVE COVENANT

Without the prior written consent of Co-Agents and the Requisite Lenders, from and after the date hereof until the Termination Date, Guarantor shall not (a) sell, transfer, convey, assign or otherwise dispose of, or (b) create, incur, assume or permit to exist any Lien on, its capital Stock of Borrower.

5. FURTHER ASSURANCES.

Guarantor agrees, upon the written request of Agent, to execute and deliver to Agent, from time to time, any additional Instruments or documents reasonably considered necessary by Agent to cause this Guaranty to be, become or remain valid and effective in accordance with its terms.

6. PAYMENTS FREE AND CLEAR OF TAXES.

All payments required to be made by Guarantor hereunder shall be made to Agent, for the benefit of Co-Agents and Lenders, free and clear of, and without deduction for, any and all present or future Taxes. If Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder, (a) the sum payable shall be increased as much as shall be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 6) Co-Agents or Lenders, as applicable, receives an amount equal to the sum it would have received had no such deductions been made, (b) Guarantor shall make such deductions, and (c) Guarantor shall pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law. Within 30 days after the date of any payment of Taxes, Guarantor shall furnish to Agent the original or a certified copy of a receipt evidencing payment thereof. Guarantor shall indemnify and, within ten (10) days of demand therefor, pay Agent, for the benefit of Co-Agents and Lenders, for the full amount of Taxes (including any Taxes imposed by any jurisdiction on amounts payable under this Section 6) paid by Co-Agents or Lenders, as appropriate, with respect to any sum payable by Guarantor to Agent under this Guaranty or any other Loan Document, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally asserted.

7. APPLICATION OF PAYMENTS.

Any payment made by Guarantor under this Guaranty shall be applied by Agent first, to the satisfaction of Guarantor's indemnification liabilities pursuant to Section 8, and then, in the order of priorities set forth in Section 1.11 of the Credit Agreement, subject in all cases to the limitations of Section 11.

8. INDEMNIFICATION.

Guarantor shall indemnify and hold harmless each Co-Agent, each Lender, and their respective Affiliates, and each such Person's respective officers, directors, employees, attorneys, agents and representatives (each, an "Indemnified Person"), from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and expenses (including reasonable attorneys' fees and disbursements and other costs of investigation or defense, including those incurred upon any appeal) that may be instituted or asserted against or incurred by any such Indemnified Person in connection with or arising out of this Guaranty and the other Loan Documents and the transactions contemplated hereunder and thereunder and any actions or failures to act in connection therewith (collectively, "Indemnified Liabilities"); provided, that, Guarantor shall not be liable for any indemnification to an Indemnified Person to the extent that any such suit, action, proceeding, claim, damage, loss, liability or expense results solely from (A) such Indemnified Person's gross negligence or willful misconduct, as finally determined by a court of competent jurisdiction, or (B) disputes among Co-Agents and Lenders that are not caused by any action or inaction of Guarantor or any Credit Party. The liabilities of Guarantor under this Section 8 shall survive the termination of this Guaranty, subject to the limitations of Section 11.

9. ADDITIONAL WAIVERS.

9.1 Guarantor waives any and all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive, Sections 2899 and 3433, or other statutory or decisional law. This means, among other things, that:

(a) Guarantor waives and will be unable to raise any defense based upon any statute or rule of law that provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal;

(b) Guarantor waives and will be unable to raise any defense based upon any statute or rule of law that provides that a creditor may be required to pursue the principal obligor or the security for the principal obligation before seeking enforcement against a surety or security pledged by the surety;

(c) Guarantor waives and will be unable to raise any defense based upon any statute or rule of law that provides that a surety's obligations may be limited or exonerated by reason of the creditor's alteration of the principal obligation or of another surety, or by reason of the impairment or suspension of the creditor's rights or remedies against the principal, another surety, or any security given for the principal obligation or given for other sureties;

(d) Guarantor waives and will be unable to claim any right to participate in, or the benefit of, any security given for the principal obligation now or hereafter held by Agent; and

(e) Subject to Section 2.8, Guarantor waives and will be unable to claim any right of subrogation and any right to enforce any remedy that Agent may have against Borrower.

9.2 Guarantor waives any defense based upon any lack of authority of the officers, directors, partners or agents acting or purporting to act on behalf of Borrower or any principal of Borrower or any legal disability or defect in the formation of Borrower.

9.3 Guarantor waives any defense based upon the application by Borrower of the proceeds of the Loans for purposes other than the purposes represented by such Borrower to Agent or intended or understood by Agent or Guarantor.

9.4 Guarantor waives the benefit of any statute of limitations affecting the liability of Guarantor hereunder or the enforcement hereof, and Guarantor further agrees that any act or event that tolls any statute of limitations applicable to the Obligations of Borrower shall similarly operate to toll the statute of limitations applicable to Guarantor's liability hereunder.

10. OTHER TERMS.

10.1 Entire Agreement. This Guaranty, together with the other Loan Documents, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements relating to a guaranty of the loans and advances under the Loan Documents or the Guaranteed Obligations.

10.2 Headings. The headings in this Guaranty are for convenience of reference only and are not part of the substance of this Guaranty.

10.3 Recitals. The recitals hereto shall be construed as a part of this Guaranty.

10.4 Severability. Whenever possible, each provision of this Guaranty shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

10.5 Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give or serve upon any other party any communication with respect to this Guaranty, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be given in the manner, and deemed received, as provided for in the Credit Agreement, and such notice, demand, request, consent, approval, declaration or other communication shall be served, given or delivered to the following addresses:

Agent: General Electric Capital Corporation
350 South Beverly Drive, Suite 200
Beverly Hills, California 90212
Attention: Account Manager (Western Digital)
Telephone: (310) 203-0335
Facsimile: (310) 785-0644

With copies to: General Electric Capital Corporation
201 High Ridge Road
Stamford, Connecticut 06927-5100
Attention: Corporate Counsel
Facsimile: (203) 316-7822
Telephone: (203) 316-7500

Murphy Sheneman Julian & Rogers
2049 Century Park East, Suite 2100
Los Angeles, California 90067
Attention: Gary B. Rosenbaum, Esq.
Facsimile: (310) 788-3777
Telephone: (310) 788-3700

Guarantor: Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, California 92630-7741
Attention: Mr. Steven M. Slavin
Telephone: (949) 672-7000
Facsimile: (949) 672-5495

With copies to: Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, California 92630-7741
Attention: Michael A. Cornelius, Esq., General Counsel
Telephone: (949) 672-7000
Facsimile: (949) 672-7837

10.6 Successors and Assigns. This Guaranty and all obligations of Guarantor hereunder shall be binding upon the successors and assigns of Guarantor (including a trustee or debtor-in-possession on behalf of Guarantor) and shall, together with the rights and remedies of Agent, for the benefit of Co-Agents and Lenders, hereunder, inure to the benefit of Co-Agents and Lenders, all future holders of any Instrument evidencing any of the Obligations and their respective successors and assigns. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or Instrument evidencing the Obligations or any portion thereof or interest therein shall in any manner affect the rights of Co-Agents and Lenders hereunder. Guarantor shall not assign, sell, hypothecate or otherwise transfer any interest in or obligation under this Guaranty.

10.7 No Waiver; Cumulative Remedies; Amendments. Neither any Co-Agent nor any Lender shall by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by Agent and then only to the extent therein set forth. A waiver by Agent, for the benefit of Co-Agents and Lenders, of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that Agent would otherwise have had on any future occasion. No failure to exercise nor any delay in exercising on the part of any Co-Agent or any Lender any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Guaranty may be waived, altered, modified, supplemented or amended except by an instrument in writing duly executed by Agent and Guarantor.

10.8 Termination. This Guaranty is a continuing guaranty and shall remain in full force and effect until, and shall automatically expire upon, the Termination Date, subject to Section 2.7. Upon payment and performance in full of the Guaranteed Obligations, Agent shall deliver to Guarantor such documents as Guarantor may reasonably request to evidence such termination.

10.9 Counterparts. This Guaranty may be executed in any number of counterparts, each of which shall collectively and separately constitute one and the same agreement. Delivery of an executed signature page to this Guaranty by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

10.10 GOVERNING LAW; CONSENT TO JURISDICTION AND VENUE.

EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS GUARANTY AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THAT STATE (WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF) AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. GUARANTY HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN LOS ANGELES COUNTY, CITY OF LOS ANGELES, CALIFORNIA, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN GUARANTOR, CO-AGENTS AND LENDERS PERTAINING TO THIS GUARANTY OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED, THAT CO-AGENTS, LENDERS AND GUARANTOR ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF LOS ANGELES COUNTY, CITY OF LOS ANGELES, CALIFORNIA; PROVIDED FURTHER, THAT NOTHING IN THIS GUARANTY SHALL BE DEEMED OR OPERATE TO PRECLUDE AGENT FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER

COURT ORDER IN FAVOR OF AGENT. GUARANTOR EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND GUARANTOR HEREBY WAIVES ANY OBJECTION THAT IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, GUARANTOR HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINT AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO GUARANTOR AT THE ADDRESS SET FORTH IN SECTION 10.5 AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF GUARANTOR'S ACTUAL RECEIPT THEREOF OR THREE DAYS AFTER DEPOSIT IN THE UNITED STATES MAIL, PROPER POSTAGE PREPAID.

10.11 WAIVER OF JURY TRIAL.

BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG CO-AGENTS, LENDERS AND GUARANTOR ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS GUARANTY OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

11. LIMITED RECOURSE TO GUARANTOR.

It is understood and agreed that Co-Agent's and Lenders' sole recourse and remedy hereunder against Guarantor shall be limited to Guarantor's right, title and interest in the capital Stock of Borrower.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, Guarantor has executed and delivered this Continuing Guaranty as of the date first above written.

"GUARANTOR"

WESTERN DIGITAL CORPORATION,
a Delaware corporation formerly known
as Western Digital Holdings, Inc.

By: /s/ STEVEN M. SLAVIN

Name: Steven M. Slavin

Title: Vice President, Taxes &
Treasurer

"AGENT"

GENERAL ELECTRIC CAPITAL CORPORATION

By: /s/ ROBERT S. YASUDA

Robert S. Yasuda
Duly Authorized Signatory

SCHEDULE I

GUARANTOR'S EXECUTIVE OFFICE AND PRINCIPAL PLACE OF BUSINESS

Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, California 92630-7741

Exhibit 10.49

[WESTERN DIGITAL LOGO]

Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, CA 92630
Tel: 949.672.9619

July 5, 2001

Ms. Teresa A. Hopp
26711 Corsica Road
Mission Viejo CA 92692

Dear Terry:

This letter, when signed by you, constitutes the agreement (the "Agreement") relative to your resignation from Western Digital Corporation ("WDC") and Western Digital Technologies, Inc. ("WTC" and, collectively with WDC, the "Company"). The terms of this Agreement are as follows:

1. EMPLOYMENT PERIOD. You will resign your position as Vice President and Chief Financial Officer of WDC and WTC effective Friday, September 28, 2001, or such earlier time as requested by the Chief Executive Officer ("CEO"). Effective such date (the "Resignation Date"), you will also resign all of your positions with the Company's subsidiaries. You will continue to be treated as an employee, subject to the limitations below, until the earlier of September 27, 2002 or your death (the "Employment Period").

2. STOCK OPTIONS AND RESTRICTED SHARES.

   (a) During the Employment Period stock options previously granted to you under the Company's Employee Stock Option Plan and the Company's subsidiary's Stock Incentive Plans (collectively, the "Options") will continue to vest in accordance with their terms. During the period from September 28, 2001 through September 27, 2002, the approximate additional vesting of shares would be as follows: WDT - 93,440; Connex, Inc. - 7,500; SageTree, Inc. - 12,500; and Keen Personal Media, Inc. - 19,792. In the event of your death prior to September 27, 2002, the Options will immediately vest to the extent they would have as of September 27, 2002. You will have up to three (3) years following September 27, 2002 to exercise the Options or, in the event of your death, such longer period as may be provided in the Options. A stock option summary and detailed schedule setting forth these options, their grant dates, exercise prices, and vesting schedules are attached as Attachment "A" and incorporated herein by reference.

(b) On September 27, 2002, 25,000 shares of the restricted stock (the "Restricted Shares") award you received in December 2000 will vest. The remaining shares covered by such award shall be immediately canceled. A copy of the original letter confirming your restricted stock award is attached as Attachment "B" and incorporated herein by reference.

(c) The foregoing extended vesting schedules notwithstanding, if you violate any of your covenants set forth in paragraph 10 hereof, (i) any unexercised Options shall be immediately canceled and shall no longer be exercisable, (ii) the Restricted Shares shall be immediately canceled, and (iii) WDC and/or WDT shall have the right to recover any profits realized by you as a result of the exercise of Options or the sale of Restricted Shares or of shares received pursuant to the exercise of Options during the six month period prior to the date of any such violation, as determined by the Board of Directors. Any such determination shall be made by the Company's Board of Directors; provided, however, that in the event of a proceeding brought under Section 15 hereof, any such determination shall be made de novo by the arbitrator appointed thereunder.

3. COMPENSATION.

(a) You will be paid $375,000.00 in wage continuation based on your current base salary. Vesting of your cash-based awards under the Company's executive retention programs will cease as of September 28, 2001, and, since no additional amounts will vest between the date hereof and September 28, 2001, no further amounts will be paid thereunder. Twenty-six (26) bi-weekly payments of $14,423.08 will begin on October 12, 2001, and conclude with a final payment on September 27, 2002. Additionally, you will be eligible to receive a $100,000.00 transition retention payment. This payment is contingent upon your performing certain of your normal and customary duties through the Resignation Date as are specified by the CEO and is intended to facilitate a smooth transition of your current job responsibilities and work related activities. In this regard, it is expected that your duties will be primarily directed towards the controller, treasury, audit and corporate finance functions. In addition, you will continue to assist the new ventures as directed by the CEO in their funding and strategic transaction efforts. You will not be directed to give substantive attention to the financial analysis function of the HDS business unit or to sign SEC filings, including the Company's 10-K for the fiscal year ending June 29, 2001. In coordination with the CEO, you will assist in presenting the report of financial results at the Company's July conference call, and, within the limits of your knowledge of the Company's financial and operating results and forecasts, you will communicate with and respond to questions from analysts, shareholders and creditors as appropriate. Upon satisfactorily performing the specified responsibilities, the transition retention payment will be paid within thirty (30) days after the Resignation Date. The Company agrees to provide you with written notice and a reasonable opportunity to remedy any dissatisfaction before claiming it has no obligation to pay the transition retention payment and agrees that it will not dispute the judgment of Mr. Massengill if he has approved the payment.

(b) You are a participant in the Company's Change of Control Severance Plan ("Severance Plan"). If, prior to the Resignation Date, there is a Change of Control of the Company as that term is defined in the Severance Plan ("Change of Control"), and as a result you become eligible for severance payments under the Severance Plan, the Company shall pay to you the entire amount remaining to be paid to you pursuant to Section 3(a) above, including the transition retention payment, such amount to be payable at the time severance payments under the Severance Plan are due and payable to the executive officers of the Company. If, after the Resignation Date but during the Employment Period there is a Change in Control or Mr. Matthew Massengill has ceased or ceases to be President or Chief Executive Officer of the Company, the Company shall pay to you the entire amount remaining to be paid to you pursuant to Section 3(a) above, including the transition retention payment, such amount to be payable within thirty (30) days after the Change of Control or the date Mr. Massengill ceases to be President or Chief Executive Officer, whichever event shall last occur. Payments to you pursuant to this Section 3(b) will be in lieu of any severance payments you would be eligible to receive as a participant in the Change of Control Severance Plan.

4. BENEFITS. The status of your current benefits is set forth on Attachment "C" hereto and hereby made a part hereof. During the Employment Period you will continue to receive benefits accorded to employees generally, other than vacation accruals, and benefits accorded to you and other executives in comparable pay grades ("special benefits"), provided that such special benefits continue to be furnished to executives generally in comparable pay grades. These include:

(a) Your flex benefit allowance of $335.56 per pay period.

(b) Employee Stock Purchase Plan (ESPP) will continue and deductions will be made from your wage continuation checks through the next two purchase dates.

(c) 401(k) participation and Western Digital employer match will continue with deductions coming from your wage continuation checks.

(d) Financial planning assistance of up to $7,000 per fiscal year.

(e) Supplemental executive medical coverage of up to $5,000 per fiscal year.

If any benefits (including special benefits) are discontinued and adjustments are made to compensation or benefits of employees generally, or of executives in comparable pay grades, in lieu of the discontinued benefits, and if such discontinuances apply to you under this Agreement, then in such instances like adjustments will be made to payments or benefits accorded to you with respect to the Employment Period. The foregoing shall include surrenders, cancellations or changes in options that accomplish a change in an option strike price for the benefit of employees or executives. No actions will be taken with respect to the moneys payable or the benefits accorded to you that are intended to affect adversely only you or other terminating employees, unless such actions are taken as a result of a material breach by you of any of your obligations under this Agreement. Should you take another position prior to the expiration of wage continuation as an employee of a company with health insurance coverages, Western Digital's health coverages stop at the end of the month in which you start to work for the other company.

Your Western Digital benefits will cease sixty days after September 27, 2002 month-end. You may be entitled to continued basic health insurance coverage under the Company's COBRA plan. If you so elect, this continuation will be on terms consistent with applicable federal laws and regulations. If you elect and are eligible to continue this coverage, you will be charged a monthly premium to cover the cost of providing this insurance including a small administrative fee. Our benefits administration staff will give you complete details in this regard.

5. CONFIDENTIALITY AND COMMUNICATIONS. You and the Company agree that the terms of this arrangement will be held in confidence except to the extent that disclosures may be required by government regulations or judicial process or to receive tax, legal or financial advice. References that may request information about your employment will be referred to the Vice President of Human Resources, and all responses to requests for information will be limited to a confirmation of the periods of your employment with the Company and the positions held. You and the Company agree that neither party will at any time defame or slander the other in any manner likely to be harmful to your business or reputation or the personal or business reputation of the Company or any of its officers or directors; provided, that each party shall respond accurately and fully to any question, inquiry or request for information when required by legal process. A letter of recommendation from Mr. Massengill substantially in the form attached hereto as Attachment "D" will be placed in your personnel file. The Company will allow you to confirm the contents of your personnel file upon reasonable notice.

6. VACATION. By September 28, 2001 you will be paid all accrued and unused vacation and an additional two weeks of vacation. Although you will continue on the Company payroll through September 27, 2002, you will accrue no more vacation subsequent to September 28, 2001.

7. TEAM-BASED INCENTIVE PLAN. Any distribution to which you become entitled as a result of awards under the Team-Based Incentive Plan ("TBIP") for the six-month period ending June 29, 2001, and the six-month period ending December 31, 2001 will be made to you in accordance with the terms of the TBIP, except that you will be entitled to an amount equal to 1/2 of any amount for the period ending December 31, 2001. You will not be eligible to participate in the TBIP beyond that date.

8. OUTPLACEMENT SERVICES. The Company will provide executive outplacement assistance through Lee Hecht Harrison; Challenger, Gray and Christmas, or another firm of your choosing to assist you in finding another position. These services may begin anytime prior to September 27, 2002. Contact the Vice President of Human Resources for assistance with these arrangements.

9. INDEMNIFICATION AND ASSISTANCE.

(a) If you are subjected to any claim or demand involving any action or inaction allegedly taken by you during the course of your employment or directorship with the Company, you will be entitled to all rights of indemnification which may then be available to other executive officers or directors of the Company, including, without limitation, insurance protection under any director and/or officer liability insurance coverage maintained by the Company or any subsidiary and any rights to indemnification provided by applicable law or the By-laws of the Company or any subsidiary, and the Company will, and shall cause any subsidiary to, cooperate fully with you in responding to or defending against any such claim or demand.

(b) You agree to make yourself available to respond to inquiries by the Company regarding management, regulatory, and legal activities of which you acquired knowledge while employed by the Company. You agree to make yourself available, without the requirement of being subpoenaed, to confer with counsel at reasonable times and locations and upon reasonable notice concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the Company during your period of employment. You further agree to submit to deposition and/or testimony in accordance with the laws of the forum involved concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the Company during your period of employment. The Company agrees to pay to you the amount of such reasonable expenses and costs incurred by you in satisfaction of such obligation, including any compensation loss incurred by you.

10. NON-COMPETITION AND NON-SOLICITATION. You agree that you will not, at any time during the Employment Period and for a period of one (1) year thereafter:

(a) Directly or indirectly, whether for your own account or as an employee, director, consultant or advisor, provide services to any of the following businesses or entities:

(i) Maxtor Corporation

(ii) Seagate Technologies

(iii) Fujitsu Hard Drive Division

(iv) Samsung Hard Drive Division

(v) Tivo Corporation;

(b) Directly solicit for employment any of the senior executives (Director and above) of the finance organization of the Company or any of its subsidiaries; or

(c) Induce or attempt to induce any financial institution that is currently in a vendor, creditor, investment banking or shareholder relationship with the Company (or any of its subsidiaries) to cease doing business with the Company (or any of its subsidiaries) or in any way interfere with the existing business relationship between any such financial institution and the Company (or any of its subsidiaries).

11. CONFIDENTIAL INFORMATION. When you joined the Company you signed an agreement setting forth your obligations to the Company during and after your employment. A copy of your agreement is attached hereto as Attachment "E" and incorporated herein by reference. You understand and agree that in the course of your employment with the Company, you have acquired confidential information and trade secrets concerning the Company's business and financial operating plans and budgets, its strategic business plans and those of its subsidiaries, and its personnel. You understand and agree it could be extremely damaging to the Company if you disclosed such information to a competitor or made it available to any other person or company. You understand and agree that such information has been divulged to you in confidence, and you understand and agree that you will keep such information secret and confidential unless disclosure is required by court order or otherwise by compulsion of law. In view of the nature of your employment and the information and trade secrets which you have had access to during the course of your employment, you also agree that the Company could be irreparably harmed by any violation, or threatened violation of the agreements in this Paragraph and that, therefore, the Company shall be entitled to an injunction prohibiting you from any violation or threatened violation of such agreements.

12. RELEASE OF CLAIMS. You agree that the consideration provided for in this Agreement represents payment in full of all outstanding obligations owed to you by the Company or any subsidiary of the Company. You, on behalf of yourself and your heirs, agents, representatives, immediate family members, executors, successors, and assigns, hereby fully and forever release the Company and its agents, directors, employees, attorneys, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns from, and agree not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that you may possess against the Company arising from any omissions, acts or facts that have occurred up until and including the Effective Date including, without limitation,

    (a) Any and all claims relating to or arising from your relationship with the Company or any subsidiary of the Company and the termination of that relationship;

    (b) Any and all claims relating to, or arising from, your right to purchase, or actual purchase of shares of stock of the Company or any subsidiary of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

    (c) Any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; invasion of privacy; false imprisonment; and conversion;

(d) Any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and the California Labor Code;

(e) Any and all claims for violation of the federal or any state constitution;

(f) Any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) Any and all claims for attorneys' fees and costs.

You and the Company agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement.

13. ACKNOWLEDGMENT OF WAIVER OF CLAIMS UNDER ADEA. You acknowledge that you are waiving and releasing any rights you may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. You and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. You acknowledge that the consideration given for this waiver and release Agreement is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing that (a) you should consult with an attorney prior to executing this Agreement; (b) you have seven (7) days following the execution of this Agreement by you to revoke the Agreement; and (c) this Agreement shall not be effective until the revocation period has expired. You acknowledge that under ADEA you have at least twenty one (21) days under which to consider this agreement. After due consideration and consultation with your attorney, you have hereby knowingly and voluntarily waived this requirement. Any revocation should be in writing and delivered in accordance with the notice provisions of Paragraph 21 hereof by close of business on the seventh day from the date that you sign this Agreement.

14. CIVIL CODE SECTION 1542. You represent that you are not aware of any claim other than the claims that are released by this Agreement. You acknowledge that you have been advised by legal counsel and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

You, being aware of said code section, agree to expressly waive any rights you may have thereunder, as well as under any other federal or state statute or common law principles of similar effect.

15. REMEDIES IN EVENT OF FUTURE DISPUTE.

(a) Except as provided in subparagraph (b) below, in the event of any future dispute, controversy or claim between you and the Company arising from or relating to this Agreement, its breach, any matter addressed by this Agreement, and/or your employment with the Company through the Termination Date, you and the Company will first attempt to resolve the dispute through confidential non-binding mediation to be conducted in Orange County, California by JAMS-Endispute or such other mediator as you and the Company shall mutually agree upon. If the dispute is not resolved through mediation, you and the Company will submit it to final and binding confidential arbitration to be conducted in Orange County, California by JAMS/Endispute in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, you and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. If you and the Company cannot agree on an arbitrator, the Administrator of JAMS/Endispute shall appoint an arbitrator. None of you, the Company or the arbitrator shall disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both of you and the Company, except as may be compelled by court order. Except as provided herein, the Federal Arbitration Act shall govern the interpretation and enforcement of such arbitration and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California, or Federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. You and the Company intend this arbitration provision to be valid, enforceable, irrevocable and construed as broadly as possible.

(b) In the event that a dispute arises concerning compliance with this Agreement, either you or the Company will be entitled to obtain from a court with jurisdiction over you and the Company preliminary and permanent injunctive relief to enjoin or restrict the other party from such breach or to enjoin or restrict a third party from inducing any such breach, and other appropriate relief, including money damages. By seeking any such relief, however, the moving party shall not be relieved of such party's obligation hereunder to have any remaining portion of the controversy resolved by binding confidential arbitration in accordance with subparagraph (a) above.

(c) The prevailing party in any such arbitration or court proceeding shall be entitled to recover from the losing party such of her or its reasonable costs and expenses incurred in connection with the arbitration or court proceeding as would be recoverable had such party's claim been brought as a civil action in a court of competent jurisdiction.

16. ASSIGNMENT. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the present and future subsidiaries of the Company, any and all subsidiaries of a subsidiary, all affiliated corporations, and successors and assigns of the Company. No assignment of this Agreement by the Company will relieve the Company of its obligations. You shall not assign any of your rights and/or obligations under this Agreement and any such attempted assignment will be void. This Agreement shall be binding upon and inure to the benefit of your heirs, executors, administrators, or other legal representatives and their legal assigns.

17. WAIVER. A waiver by either you or the Company of any of the terms or conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future, or of any subsequent breach thereof. All remedies, rights, undertakings, obligations, and agreements contained in this Agreement shall be cumulative, and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either you or the Company.

18. TAX CONSEQUENCES. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to you under the terms of this Agreement. You agree and understand that you are responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon.

19. COSTS. Except as provided in Paragraph 15 hereof, you and the Company shall each bear your own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

20. NOTICES. All notices required by this Agreement shall by given in writing either by personal delivery or by first class mail, return receipt requested. Notices shall be addressed as follows:

To Western Digital: Western Digital Technologies, Inc.
20511 Lake Forest Drive
Lake Forest, CA 92630-7741
Attention: Vice President, Human Resources
and Administration

To Ms. Hopp: 26711 Corsica Road
Mission Viejo, CA 92692

or in each case to such other address as you or the Company shall notify the other. Notice given by mail shall be deemed given five (5) days following the date of mailing.

21. ENTIRE AGREEMENT. This Agreement, including its Attachments and the other agreements or plans referred to or incorporated herein, represents the entire agreement and understanding between you and the Company concerning the subject matter herein, and supersedes and replaces any and all prior agreements and understandings.

22. NO ORAL MODIFICATION. This Agreement may only be amended by a writing signed by you and the Chief Executive Officer of the Company or the Chief Legal Officer of the Company.

23. GOVERNING LAW. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

24. EFFECTIVE DATE. This Agreement is effective eight days after it has been signed by both you and the Company (the "Effective Date").

25. COUNTERPARTS. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of you and the Company.

26. VOLUNTARY EXECUTION OF AGREEMENT. This Agreement is executed by you voluntarily and without any duress or undue influence on the part or behalf of the Company, with the full intent of releasing all claims. You acknowledge that:

    (a) You have read this Agreement;

    (b) You have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of your own choice or that you have voluntarily declined to seek such counsel;

    (c) You understand the terms and consequences of this Agreement and of the releases it contains; and

    (d) You are fully aware of the legal and binding effect of this Agreement.

Please indicate your agreement to the above by signing below.

Very truly yours,

WESTERN DIGITAL TECHNOLOGIES, INC.

Michael A. Cornelius
Secretary

I have read and agree to all terms and conditions as outlined above.

---------- ----------
Teresa A. Hopp Date

Attachments:

A - Stock Option Summary
B - Restricted Stock Award Letter
C - Benefits Summary
D - Form of Letter of Recommendation
E - Employment Agreement

EXHIBIT 10.50

CONNEX, INC.

1999 STOCK INCENTIVE PLAN

EFFECTIVE AS OF NOVEMBER 8, 1999

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CONNEX, INC.
1999 STOCK INCENTIVE PLAN
EFFECTIVE AS OF NOVEMBER 8, 1999

SECTION 1. INTRODUCTION.

The Company's Board of Directors adopted the Connex, Inc. 1999 Stock Incentive Plan on November 8, 1999, subject to approval by the Company's stockholder.

The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications.

The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Stock, Stock Units, Options (which may constitute Incentive Stock Options or Nonstatutory Stock Options) or Stock Appreciation Rights.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions). Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan, or in the applicable Stock Award Agreement, SAR Agreement or Stock Option Agreement.

SECTION 2. DEFINITIONS.

(a) "AFFILIATE" means any entity other than a Subsidiary, if the Company, a Parent and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "AWARD" means any award of an Option, SAR, Restricted Stock or Stock Unit under the Plan.

(c) "BOARD" means the Board of Directors of the Company, as constituted from time to time.

(d) "CHANGE IN CONTROL" means a sale of all or substantially all of the Company's assets, or any merger, consolidation or other capital reorganization of the Company with or into another corporation.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(e) "CODE" means the Internal Revenue Code of 1986, as amended.

(f) "COMMITTEE" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer the Plan.

(g) "COMMON STOCK" means the Company's common stock.

(h) "COMPANY" means Connex, Inc., a Delaware corporation.

(i) "CONSULTANT" means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate other than as an Employee or Director or Non-Employee Director.

(j) "DIRECTOR" means a member of the Board, or the board of directors of a Parent or Subsidiary, who is also a common-law employee of the Company, Parent or Subsidiary.

(k) "DISABILITY" means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(l) "EMPLOYEE" means any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "EXERCISE PRICE" in the case of an Option, means the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of a Share in determining the amount payable upon exercise of such SAR.

(o) "FAIR MARKET VALUE" means the market price of Shares, determined by the Committee as follows:

(i) If the Shares were traded over-the-counter on the date in question but were not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted by the NASDAQ system for such date;

(ii) If the Shares were traded over-the-counter on the date in question and were classified as a national market issue, then the Fair Market Value shall be equal to the last-transaction price quoted by the NASDAQ system for such date;

(iii) If the Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Western Edition of The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

(p) "GRANT" means any grant of an Option under the Plan.

(q) "INCENTIVE STOCK OPTION" OR "ISO" means an incentive stock option described in Code section 422(b).

(r) "KEY EMPLOYEE" means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.

(s) "NON-EMPLOYEE DIRECTOR" means a member of the Board, or the board of directors of a Parent or Subsidiary, who is not a common-law employee of the Company, Parent or Subsidiary.

(t) "NONSTATUTORY STOCK OPTION" OR "NSO" means a stock option that is not an ISO.

(u) "OPTION" means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.

(v) "OPTIONEE" means an individual or estate who holds an Option or SAR.

(w) "PARENT" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(x) "PARTICIPANT" means an individual or estate who holds an Award.

(y) "PLAN" means this Connex, Inc. 1999 Stock Incentive Plan as it may be amended from time to time.

(z) "RESTRICTED STOCK" means a Share awarded under the Plan.

(aa) "SAR AGREEMENT" means the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her SAR.

(bb) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(cc) "SERVICE" means service as an Employee, Director, Non-Employee Director or Consultant.

(dd) "SHARE" means one share of Common Stock.

(ee) "STOCK APPRECIATION RIGHT" OR "SAR" means a stock appreciation right awarded under the Plan.

(ff) "STOCK AWARD AGREEMENT" means the agreement between the Company and the recipient of a Restricted Stock or Stock Unit award which contains the terms, conditions and restrictions pertaining to such Restricted Stock or Stock Unit Award.

(gg) "STOCK OPTION AGREEMENT" means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her Option.

(hh) "STOCK UNIT" means a bookkeeping entry representing the equivalent of a Share, as awarded under the Plan.

(ii) "SUBSIDIARY" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company or a Parent, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(jj) "10-PERCENT STOCKHOLDER" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, or of its Parent or Subsidiaries. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) COMMITTEE COMPOSITION. The Plan shall be administered by a Committee appointed by the Board. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been appointed, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

To the extent necessary to comply with Section 16 of the Exchange Act, the Committee shall consist of two or more directors of the Company who shall satisfy the requirements of Rule 16b-3 (or its successor) under the Exchange Act with respect to Awards to persons who are officers or directors of the Company under Section 16 of the Exchange Act or the Board itself.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not qualify under Rule 16b-3, who may administer the Plan with respect to Key Employees who are not considered officers or

directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

(b) AUTHORITY OF THE COMMITTEE. Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

(i) selecting Key Employees who are to receive Awards under the Plan;

(ii) determining the type, number, vesting requirements and other features and conditions of such Awards;

(iii) interpreting the Plan; and

(iv) making all other decisions relating to the operation of the Plan.

The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) FINANCIAL REPORTS. To the extent required by applicable law, and not less often than annually, the Company shall furnish to Optionees the Company's summary financial information including a balance sheet regarding the Company's financial condition and results of operations, unless such Optionees have duties with the Company that assure them access to equivalent information. Such financial statements need not be audited.

SECTION 4. ELIGIBILITY.

(a) GENERAL RULES. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee.

(b) INCENTIVE STOCK OPTIONS. Only Key Employees who are common-law employees of the Company, its Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Stockholder shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(5) of the Code are satisfied.

SECTION 5. SHARES SUBJECT TO PLAN.

(a) BASIC LIMITATION. The stock issuable under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 10,000,000 Shares on a fully diluted basis, subject to adjustment pursuant to Section 10.

(b) ADDITIONAL SHARES. If Stock Units, Options or SARs are forfeited or if Options or SARs terminate for any other reason before being exercised, then such Stock Units, Options or SARs shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available under Section 5(a) and the balance shall again become available for Awards under the

Plan. If Restricted Stock is forfeited, then such Restricted Stock shall again become available for Awards under the Plan.

(c) DIVIDEND EQUIVALENTS. Any dividend equivalents distributed under the Plan shall not be applied against the number of Restricted Stock, Stock Units, Options or SARs available for Awards, whether or not such dividend equivalents are converted into Stock Units.

SECTION 6. TERMS AND CONDITIONS FOR AWARDS OF RESTRICTED STOCK AND STOCK UNITS.

(a) TIME, AMOUNT AND FORM OF AWARDS. Awards under the Plan may be granted in the form of Restricted Stock, in the form of Stock Units, or in any combination of both. Restricted Stock or Stock Units may also be awarded in combination with NSOs or SARs, and such an Award may provide that the Restricted Stock or Stock Units will be forfeited in the event that the related NSOs or SARs are exercised.

(b) PAYMENT FOR AWARDS. Except as may be required under applicable law, no cash consideration shall be required of the recipients of Restricted Stock or Stock Units under this Section 6.

(c) VESTING CONDITIONS. Each Award of Restricted Stock or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. A Stock Award Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or retirement or other events. Except as may be otherwise provided in a particular Stock Award Agreement, in the event of a Change in Control, each outstanding Award of Restricted Stock or Stock Units shall be assumed or an equivalent award shall be substituted by the successor corporation or a Parent or Subsidiary of such successor corporation, unless such successor corporation does not agree to assume the outstanding Awards of Restricted Stock or Stock Units, in which case such Awards of Restricted Stock and Stock Units shall terminate upon the consummation of the transaction.

For purposes of this Section 6(c), an Award of Restricted Stock or Stock Units shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of Restricted Stock or Stock Units would be entitled to purchase the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares of Common Stock covered by the Stock Award Agreement at such time (after giving effect to any adjustments in the number of Shares covered by the Stock Award Agreement as provided for in Section 10); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be purchased under the Stock Award Agreement to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(d) FORM AND TIME OF SETTLEMENT OF STOCK UNITS. Settlement of vested Stock Units may be made in the form of (i) cash, (ii) Shares or (iii) any combination of both. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 10.

(e) DEATH OF RECIPIENT. Any Stock Units Award that becomes payable after the Award recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the recipient's death. If no beneficiary was designated or if no designated beneficiary survives the recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(f) CREDITORS' RIGHTS. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Award Agreement.

SECTION 7. TERMS AND CONDITIONS OF OPTIONS.

(a) STOCK OPTION AGREEMENT. Each Grant under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. A Stock Option Agreement may provide that new Options will be granted automatically to the Optionee when he or she exercises the prior Options. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(b) NUMBER OF SHARES. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 10.

(c) EXERCISE PRICE. An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. The Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Stockholders) of a Share on the date of Grant. In the case of an NSO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NSO is outstanding. To the

extent required by applicable law, the Exercise Price for an NSO shall not be less than 85% of the Fair Market Value (110% for 10-Percent Stockholders) of a Share on the date of Grant.

(d) EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. To the extent required by applicable law, Options shall vest at least as rapidly as 20% annually over a five-year period. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO, and to the extent required by applicable law a NSO, shall in no event exceed ten (10) years from the date of Grant (five (5) years for ISO Grants to 10-Percent Stockholders). To the extent required by applicable law, Options shall be exercisable for a minimum period of six months following termination of employment due to death or Disability and thirty days following termination of employment (other than terminations for cause, as defined in the Company's personnel policies). Notwithstanding the previous sentence, no Option can be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. Options may be awarded in combination with SARs, and such an Award may provide that the Options will not be exercisable unless the related SARs are forfeited. NSOs may also be awarded in combination with Restricted Stock or Stock Units, and such an Award may provide that the NSOs will not be exercisable unless the related Restricted Stock or Stock Units are forfeited. A Stock Option Agreement may permit an Optionee to exercise an Option before it is vested, subject to the Company's right of repurchase over any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) EFFECT OF A CHANGE IN CONTROL. Except as may be otherwise provided in a particular Stock Option Agreement, in the event of a Change in Control, each outstanding Option shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or Subsidiary of such successor corporation, unless such successor corporation does not agree to assume the outstanding Options, in which case such Options shall terminate upon the consummation of the transaction.

For purposes of this Section 7(e), an Option shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of an Option would be entitled to receive upon exercise of the Option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares of Common Stock covered by the Option at such time (after giving effect to any adjustments in the number of Shares covered by the Option as provided for in Section 10); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(f) MODIFICATIONS OR ASSUMPTION OF OPTIONS. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding Options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of Shares and at the same or a different Exercise Price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

(g) TRANSFERABILITY OF OPTIONS. Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, no Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Optionee only by the Optionee or by the guardian or legal representative of the Optionee. No Option or interest therein may be assigned, pledged or hypothecated by the Optionee during his lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

(h) NO RIGHTS AS A STOCKHOLDER. An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Shares covered by an Option until such person becomes entitled to receive such Shares by filing a notice of exercise and paying the Exercise Price pursuant to the terms of such Option.

(i) RESTRICTIONS ON TRANSFER. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law.

SECTION 8. PAYMENT FOR OPTION SHARES.

(a) GENERAL RULE. The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows:

(i) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Section 8.

(ii) In the case of an NSO, the Committee may at any time accept payment in any form(s) described in this Section 8.

(b) SURRENDER OF STOCK. To the extent that this Section 8(b) is applicable, payment for all or any part of the Exercise Price may be made with Shares which have already been owned by the Optionee for such duration as shall be specified by the Committee. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan.

(c) PROMISSORY NOTE. To the extent that this Section 8(c) is applicable, payment for all or any part of the Exercise Price may be made with a full recourse promissory note.

(d) OTHER FORMS OF PAYMENT. To the extent that this Section 8(d) is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

SECTION 9. STOCK APPRECIATION RIGHTS.

(a) SAR AGREEMENT. To the extent permitted under applicable law, the Committee may grant Awards which are SARs. Each grant of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

(b) NUMBER OF SHARES. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 10.

(c) EXERCISE PRICE. Each SAR Agreement shall specify the Exercise Price. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

(d) EXERCISABILITY AND TERM. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. SARs may also be awarded in combination with Options, Restricted Stock or Stock Units, and such an Award may provide that the SARs will not be exercisable unless the related Options, Restricted Stock or Stock Units are forfeited. A SAR may be included in an ISO only at the time of Grant but may be included in an NSO at the time of Grant or at any subsequent time, but not later than six months before the expiration of such NSO. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) EFFECT OF CHANGE IN CONTROL. Except as may be otherwise provided in a particular SAR Agreement, in the event of a Change in Control, each outstanding SAR shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or Subsidiary of such successor corporation, unless such successor corporation does not agree to assume the outstanding SARs, in which case such SARs shall terminate upon the consummation of the transaction.

For purposes of this Section 9(e), a SAR shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of a SAR would be entitled to receive upon exercise of the SAR the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares of Common Stock

covered by the SAR at such time (after giving effect to any adjustments in the number of Shares covered by the SAR as provided for in Section 10); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the SAR to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(f) EXERCISE OF SARS. If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (i) Shares, (ii) cash or (iii) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(g) MODIFICATION OR ASSUMPTION OF SARS. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of Shares and at the same or a different Exercise Price. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such SAR.

SECTION 10. PROTECTION AGAINST DILUTION.

(a) ADJUSTMENTS. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of:

(i) the number of Options, SARs, Restricted Stock and Stock Units available for future Awards under Section 5;

(ii) the number of Stock Units included in any prior Award which has not yet been settled;

(iii) the number of Shares covered by each outstanding Option and SAR; or

(iv) the Exercise Price under each outstanding Option and SAR.

Except as provided in this Section 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

(b) REORGANIZATIONS. In the event that the Company is a party to a merger or other reorganization, outstanding Options, SARs, Restricted Stock and Stock Units shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its Parent or for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting and accelerated expiration, or for settlement in cash or for cancellation.

SECTION 11. VOTING AND DIVIDEND RIGHTS.

(a) RESTRICTED STOCK. The holders of Restricted Stock awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Stock Award Agreement, however, may require that the holders of Restricted Stock invest any cash dividends received in additional Restricted Stock. Such additional Restricted Stock shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Stock shall not reduce the number of Shares available under Section 5.

(b) STOCK UNITS. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

SECTION 12. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Shares issued under this Plan. Such Shares shall be treated for all purposes under the Plan like Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Shares available under Section 5.

SECTION 13. LIMITATIONS ON RIGHTS.

(a) RETENTION RIGHTS. Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's articles of incorporation and bylaws and a written employment agreement (if any).

(b) STOCKHOLDERS' RIGHTS. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Sections 6, 10 and 11.

(c) REGULATORY REQUIREMENTS. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 14. WITHHOLDING TAXES.

(a) GENERAL. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) SHARE WITHHOLDING. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

SECTION 15. ASSIGNMENT OR TRANSFER OF AWARDS.

(a) GENERAL. Except as provided in Section 14, or in an applicable agreement, or as required by applicable law, an Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. An Option or SAR may be exercised during the lifetime of the Optionee only by him or her or by his or her guardian or legal representative. Any act in violation of this Section 15 shall be void. However, this Section 15 shall not preclude a Participant from designating a beneficiary who will receive any outstanding Awards in the event of the Participant's death, nor shall it preclude a transfer of Awards by will or by the laws of descent and distribution.

(b) TRUSTS. Neither this Section 15 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Stock or Stock Units to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Stock or Stock Units from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Stock or Stock Units held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Stock Award Agreement, as if such trustee were a party to such Agreement.

SECTION 16. DURATION AND AMENDMENTS.

(a) TERM OF THE PLAN. The Plan, as set forth herein, shall become effective on the date of its adoption by the Board, subject to the approval of the Company's stockholder. No Awards shall be exercisable until such stockholder approval is obtained. In the event that the stockholder fails to approve the Plan within twelve (12) months after its adoption by the Board, any Awards made shall be null and void and no additional Awards shall be made after such date. To the extent required by applicable law, the Plan shall terminate on the date that is ten (10) years after its adoption by the Board and may be terminated on any earlier date pursuant to Section 16(b).

(b) RIGHT TO AMEND OR TERMINATE THE PLAN. The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's stockholder(s) only to the extent required by applicable laws, regulations or rules.

SECTION 17. EXECUTION.

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this Plan.

CONNEX, INC.

By /s/ W. Michael Williams

Title President & COO

EXHIBIT 10.51

CAMEO TECHNOLOGIES, INC.

2000 STOCK INCENTIVE PLAN

SECTION 1. INTRODUCTION. The Board of Directors (the "Board") of Cameo Technologies, Inc., a Delaware corporation doing business in California as Cameo, Inc. (the "Company"), adopted the Cameo 2000 Stock Incentive Plan (this "Plan") on February 7, 2000. This Plan was approved by the sole stockholder of the Company by written consent dated February 7, 2000. The Plan was amended by the Board of Directors of Cameo, Inc. by written consent dated September 1, 2000, to reflect the Company's name change. The purpose of this Plan is to promote the long-term success of the Company and the creation of stockholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications. This Plan seeks to achieve this purpose by providing for Awards in the form of Options (which may be Incentive Stock Options or Nonstatutory Stock Options) and Restricted Stock Awards. This Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions).

SECTION 2. DEFINITIONS. For the purposes of this Plan and any Stock Option Agreement or Restricted Stock Agreement, the following terms shall have the meanings indicated (unless otherwise provided in any Stock Option Agreement or Restricted Stock Agreement):

(a) "Award" means any Restricted Stock Award or any Option granted under this Plan.

(b) "Board" has the meaning set forth in the preamble hereto.

(c) "Change in Control" means (i) a sale of all or substantially all of the Company's assets, or (ii) any merger or consolidation of the Company with or into another corporation if, after the consummation of such transaction, the holders of the Company's capital stock immediately prior to such transaction do not hold, immediately following such transaction and by virtue of their ownership of such shares of capital stock, at least fifty percent (50%) of the voting power of the surviving corporation or a Parent of such surviving corporation. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer this Plan.

(f) "Common Stock" means the Company's common stock, par value $0.001 per share.

(g) "Company" has the meaning set forth in the preamble hereto.

(h) "Consultant" means any individual who performs bona fide services to the Company or a Subsidiary other than as an Employee, a Director or a Non-Employee Director.

(i) "Director" means any member of the Board who is also a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(j) "Disability" means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(k) "Employee" means any individual who is a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Exercise Price" in the case of an Option, means the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement.

(n) "Fair Market Value" means the fair market value of a Share, as determined in good faith by the Committee on such basis as it deems appropriate.

(o) "Incentive Stock Option" or "ISO" means an incentive stock option described in Code section 422(b).

(p) "Key Employee" means an Employee, a Director, a Non-Employee Director or a Consultant who has been selected by the Committee to receive an Award under this Plan.

(q) "Non-Employee Director" means a member of the Board who is not a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(r) "Nonstatutory Stock Option" or "NSO" means a stock option that is not an ISO.

(s) "Option" means an ISO or NSO granted under this Plan.

(t) "Parent" of a corporation (the "first corporation") means any other corporation in an unbroken chain of corporations ending with the first corporation, if each of the corporations other than the first corporation owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of such other corporations in such chain or of the first corporation.

(u) "Participant" means an individual or estate who holds an Award.

(v) "Plan" has the meaning set forth in the preamble hereto.

(w) "Restricted Stock" means Common Stock issued or sold to a Participant under this Plan, other than upon the exercise of an Option.

(x) "Restricted Stock Agreement" means the agreement between the Company and the Participant receiving a Restricted Stock Award which contains the terms, conditions and restrictions pertaining to such Restricted Stock Award.

(y) "Restricted Stock Award" means a grant or sale of Restricted Stock under this Plan.

(z) "Securities Act" means the Securities Act of 1933, as amended.

(aa) "Service" means, unless otherwise provided in any Award, service as an Employee, Director, Non-Employee Director of, or as a Consultant to, the Company or any Subsidiary.

(bb) "Share" means one share of Common Stock.

(cc) "Stock Option Agreement" means the agreement between the Company and the Participant receiving an Option that contains the terms, conditions and restrictions pertaining to such Option.

(dd) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of this Plan shall be considered a Subsidiary commencing as of such date.

(ee) "10-Percent Stockholder" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, or of any Parent of the Company or any Subsidiary. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) COMMITTEE COMPOSITION. This Plan shall be administered by a Committee appointed by the Board. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been appointed, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall

be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

(b) AUTHORITY OF THE COMMITTEE. Subject to the provisions of this Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of this Plan. Such actions shall include (i) selecting Key Employees who are to receive Awards under this Plan, (ii) determining the type, number, vesting requirements and other features and conditions of such Awards, (iii) interpreting this Plan, and (iv) making all other decisions relating to the operation of this Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement this Plan. The Committee's determinations under this Plan shall be final and binding on all persons.

(c) FINANCIAL REPORTS. To the extent required by applicable law, and not less often than annually, the Company shall furnish to Participants the Company's summary financial information including a balance sheet regarding the Company's financial condition and results of operations, unless such Participants have duties with the Company that assure them access to equivalent information. Such financial statements need not be audited.

SECTION 4. ELIGIBILITY. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee. Only Key Employees who are common-law employees of the Company or a Subsidiary or of a Parent of the Company shall be eligible for the grant of ISOs. An Option may be granted to any Key Employee who is a 10-Percent Stockholder only if such Option meets the requirements set forth in section 422(c)(5) of the Code.

SECTION 5. SHARES SUBJECT TO THIS PLAN. The stock issuable under this Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares issued pursuant to this Plan at any time plus the aggregate number of Shares reserved for Awards under this Plan at such time shall not at any time exceed 12,000,000 Shares (which number shall be subject to adjustment as provided in Section 8). If Options are forfeited or if Options terminate for any other reason before being exercised, then the Shares reserved for issuance pursuant to such Options shall again become available for Awards under this Plan. If Shares which were issued as Restricted Stock under this Plan are repurchased or otherwise reacquired by the Company, then such Shares shall again become available for Awards under this Plan.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) STOCK OPTION AGREEMENT. Each Option granted under this Plan shall be evidenced by a Stock Option Agreement between the Participant receiving such Option and the Company. All Options shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Option may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into

under this Plan need not be identical. Each Stock Option Agreement shall specify whether the Option is an ISO or a NSO.

(b) NUMBER OF SHARES. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 8. The number of shares covered by Options granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(c) EXERCISE PRICE. An Option's Exercise Price shall be established by the Committee and set forth in the Stock Option Agreement evidencing such Option. To the extent required by law, the Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Stockholders) of a Share on the date of grant. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the Exercise Price for an NSO may not be less than 85% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant. The Exercise Price for a NSO may also vary in accordance with a predetermined formula.

(d) EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, Options shall vest at least at the rate of 20% (or such other percentage as may be specified in any such law, rule or regulation) annually over a five-year period, subject to such reasonable conditions as may be specified in the Stock Option Agreement evidencing such Option. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent a Stock Option Agreement provides for vesting requirements, such requirements shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. Each Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO, and to the extent required by applicable law, a NSO, shall in no event exceed ten (10) years from the date of grant (five (5) years for ISO's granted to 10-Percent Stockholders). Options shall be exercisable for the period or periods following termination of employment under different circumstances as may be set forth in the Stock Option Agreement; provided, however, that such period or periods shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. No Option may be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability upon the occurrence of certain events. A Stock Option Agreement may permit the Participant holding an Option to exercise such Option before it is vested, subject to the Company's right to repurchase any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the

same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) EFFECT OF A CHANGE IN CONTROL. Except as may be otherwise provided in a particular Stock Option Agreement, in the event of a Change in Control, each outstanding Option shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or a subsidiary of such successor corporation, unless such successor corporation, Parent or subsidiary does not agree to assume the outstanding Options, in which case such Options shall terminate upon the consummation of the transaction. For purposes of this Section 6(e), an Option shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of an Option would be entitled to receive upon exercise of the Option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares covered by the Option at such time (after giving effect to any adjustments in the number of Shares covered by the Option as provided for in Section 8); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(f) MODIFICATIONS OR ASSUMPTION OF OPTIONS. Within the limitations of this Plan, the Committee may modify, extend or assume outstanding Options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer). The foregoing notwithstanding, no modification of an Option shall, without the consent of the Participant holding such Option, alter or impair his or her rights or obligations under such Option.

(g) RESTRICTIONS ON TRANSFER. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply with any requirements of any law, rule or regulation to the extent such compliance is required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations.

(h) PAYMENT OF EXERCISE PRICE OF OPTIONS. The Exercise Price of any Option shall be payable in cash or as otherwise expressly permitted by the provisions of the applicable Stock Option Agreement. A Stock Option Agreement may specify that payment for all or any part of the Exercise Price of any Option may be made (i) with Shares which have already been owned by the Participant exercising such Option for at least six months or for such other duration as may be specified by the Committee (such Shares shall be valued at their Fair Market Value on the date of exercise), (ii) with a full recourse promissory note or (iii) in any other form that is consistent with applicable laws, regulations and rules. The foregoing notwithstanding, the Exercise Price of an

Option may be paid only as expressly provided in the applicable Stock Option Agreement, unless otherwise expressly authorized by the Committee.

SECTION 7. TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

(a) RESTRICTED STOCK AWARDS. Restricted Stock Awards may be granted by issuing Shares pursuant to the terms of a Restricted Stock Agreement between the Participant and the Company. Each Restricted Stock Award shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Restricted Stock Award may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Restricted Stock Agreement. The provisions of the various Restricted Stock Agreements entered into under this Plan need not be identical. The number of Shares covered by Restricted Stock Awards granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(b) PURCHASE PRICE. Without limiting the generality of clause (ii) of the first sentence of Section 7(a), to the extent required to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the purchase price for Restricted Stock purchased pursuant to a Restricted Stock Award shall be at least 85% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated, or (ii) 100% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated if the Participant receiving such Restricted Stock Award is a 10-Percent Stockholder at such time, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant or at the time of purchase.

(c) VESTING CONDITIONS. Each Restricted Stock Award shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. To the extent a Restricted Stock Award is subject to vesting requirements, such requirements (and the related repurchase rights with respect to vested and unvested shares) shall be such as to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. A Restricted Stock Agreement may provide for accelerated vesting upon the occurrence of certain events. Except as may be otherwise provided in a particular Restricted Stock Agreement, in the event the shares of Restricted Stock subject to any Restricted Stock Agreement are converted into any other kind of security or property (including cash) at any time by virtue of a merger, consolidation or reclassification, such security or property shall continue to be subject to the vesting and other restrictions set forth in such Restricted Stock Agreement following such conversion.

(d) VOTING RIGHTS. The holders of Restricted Stock shall have the same voting, dividend and other rights as the Company's other stockholders.

SECTION 8. CERTAIN ADJUSTMENTS. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of the number and kind of securities available for future Awards; the number and kind of securities covered by each outstanding Option; and the Exercise Price of each outstanding Option. Except as provided in this Section 8 or to the extent a Participant holds Restricted Stock or Shares issued upon exercise of a Stock Option, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend. In the event that the Company is a party to a merger or other reorganization, outstanding Options and shares of Restricted Stock shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its Parent or for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting and accelerated expiration, for settlement in cash or for cancellation.

SECTION 9. LIMITATIONS ON RIGHTS.

(a) RETENTION RIGHTS. Neither this Plan nor any Award granted under this Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Subsidiary or a Parent of the Company. The Company, each Subsidiary and each Parent of the Company reserve the right to terminate the service of any person at any time, and for any reason, subject to applicable laws and any written employment agreement with such person.

(b) STOCKHOLDERS' RIGHTS. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by any Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as otherwise expressly provided herein.

(c) REGULATORY REQUIREMENTS. Any other provision of this Plan notwithstanding, the obligation of the Company to issue Shares under this Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 10. WITHHOLDING TAXES. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with this Plan. The Company shall not be required to issue any Shares or make any cash payment under this Plan until such obligations are satisfied. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax

obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

SECTION 11. ASSIGNMENT OR TRANSFER OF AWARDS. Except as provided in Section 10, or in an applicable agreement, or as required by applicable law, an Award granted under this Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law; provided, however, that this Section 11 shall not preclude a Participant from designating a beneficiary who will receive any outstanding Awards in the event of the Participant's death, nor shall it preclude a transfer of Awards by will or by the laws of descent and distribution.. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Participant holding such Option only by such Participant or such Participant's guardian or legal representative. Any act in violation of this Section 11 shall be void. Except to the extent required to ensure that the granting of Options and Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, neither this Section 11 nor any other provision of this Plan shall preclude a Participant from transferring or assigning Shares issued or issuable upon exercise of an Option or shares of Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing, provided that a further transfer or assignment from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Shares held by such trustee shall be subject to all of the conditions and restrictions set forth in this Plan and in the applicable Award, as if such trustee were a party to such Award.

SECTION 12. DURATION AND AMENDMENTS. This Plan, as set forth herein, became effective on February 7, 2000, the date on which this Plan was adopted and approved by the Board and the sole stockholder of the Company. This Plan shall terminate on February 7, 2010 unless terminated prior to such date as provided in this Section 12. The Board may amend or terminate this Plan at any time and for any reason. The termination of this Plan, or any amendment thereof, shall not affect any Award previously granted under this Plan. No Awards shall be granted under this Plan after this Plan's termination. An amendment of this Plan shall be subject to the approval of the Company's stockholder(s) only to the extent required by any applicable laws, rules or regulations.

To record the adoption of this Plan by the Board and the approval of this Plan by the sole stockholder of the Company, the Company has caused this Plan to be executed by the undersigned officer of the Company as of the 7th day of February 2000.

Cameo Technologies, Inc.

By: /s/ Michael A. Cornelius

Title: Secretary

EXHIBIT 10.52

KEEN PERSONAL MEDIA, INC.

2000 STOCK INCENTIVE PLAN

SECTION 1. INTRODUCTION. The Board of Directors (the "Board") of Keen Personal Media, Inc., a Delaware corporation (the "Company"), adopted the KEEN Personal Medial, Inc. 2000 Stock Incentive Plan (this "Plan") on October 17, 2000. This Plan was approved by the sole stockholder of the Company by written consent dated October 17, 2000. The purpose of this Plan is to promote the long-term success of the Company and the creation of stockholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications. This Plan seeks to achieve this purpose by providing for Awards in the form of Options (which may be Incentive Stock Options or Nonstatutory Stock Options) and Restricted Stock Awards. This Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions).

SECTION 2. DEFINITIONS. For the purposes of this Plan and any Stock Option Agreement or Restricted Stock Agreement, the following terms shall have the meanings indicated (unless otherwise provided in any Stock Option Agreement or Restricted Stock Agreement):

(a) "Award" means any Restricted Stock Award or any Option granted under this Plan.

(b) "Board" has the meaning set forth in the preamble hereto.

(c) "Change in Control" means (i) a sale of all or substantially all of the Company's assets, or (ii) any merger or consolidation of the Company with or into another corporation if, after the consummation of such transaction, the holders of the Company's capital stock immediately prior to such transaction do not hold, immediately following such transaction and by virtue of their ownership of such shares of capital stock, at least fifty percent (50%) of the voting power of the surviving corporation or a Parent of such surviving corporation. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer this Plan.

(f) "Common Stock" means the Company's common stock, par value $0.001 per share.

(g) "Company" has the meaning set forth in the preamble hereto.

(h) "Consultant" means any individual who performs bona fide services to the Company or a Subsidiary other than as an Employee, a Director or a Non-Employee Director.

(i) "Director" means any member of the Board who is also a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(j) "Disability" means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(k) "Employee" means any individual who is a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Exercise Price" in the case of an Option, means the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement.

(n) "Fair Market Value" means the fair market value of a Share, as determined in good faith by the Committee on such basis as it deems appropriate.

(o) "Incentive Stock Option" or "ISO" means an incentive stock option described in Code section 422(b).

(p) "Key Employee" means an Employee, a Director, a Non-Employee Director or a Consultant who has been selected by the Committee to receive an Award under this Plan.

(q) "Non-Employee Director" means a member of the Board who is not a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(r) "Nonstatutory Stock Option" or "NSO" means a stock option that is not an ISO.

(s) "Option" means an ISO or NSO granted under this Plan.

(t) "Parent" of a corporation (the "first corporation") means any other corporation in an unbroken chain of corporations ending with the first corporation, if each of the corporations other than the first corporation owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of such other corporations in such chain or of the first corporation.

(u) "Participant" means an individual or estate who holds an Award.

(v) "Plan" has the meaning set forth in the preamble hereto.

(w) "Restricted Stock" means (i) Common Stock issued or sold to a Participant under this Plan, other than upon the exercise of an Option or (ii) Common Stock issued or sold to a Participant upon the early exercise of the unvested portion of an Option as described in Section 6(d) below.

(x) "Restricted Stock Agreement" means (i) the agreement between the Company and the Participant receiving a Restricted Stock Award which contains the terms, conditions and restrictions pertaining to such Restricted Stock Award or (ii) the agreement between the Company and the Participant in connection with the early exercise of the unvested portion of an Option as described in Section 6(d) below which contains the terms, conditions and restrictions pertaining to the Restricted Stock acquired upon such early exercise.

(y) "Restricted Stock Award" means a grant or sale of Restricted Stock under this Plan other than a sale of Restricted Stock upon the early exercise of the unvested portion of an Option as described in Section 6(d) below.

(z) "Securities Act" means the Securities Act of 1933, as amended.

(aa) "Service" means, unless otherwise provided in any Award, service as an Employee, Director, Non-Employee Director of, or as a Consultant to, the Company or any Subsidiary.

(bb) "Share" means one share of Common Stock.

(cc) "Stock Option Agreement" means the agreement between the Company and the Participant receiving an Option that contains the terms, conditions and restrictions pertaining to such Option.

(dd) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of this Plan shall be considered a Subsidiary commencing as of such date.

(ee) "10-Percent Stockholder" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, or of any Parent of the Company or any Subsidiary. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) COMMITTEE COMPOSITION. This Plan shall be administered by a Committee appointed by the Board. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been appointed, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

(b) AUTHORITY OF THE COMMITTEE. Subject to the provisions of this Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of this Plan. Such actions shall include (i) selecting Key Employees who are to receive Awards under this Plan, (ii) determining the type, number, vesting requirements and other features and conditions of such Awards, (iii) interpreting this Plan, and (iv) making all other decisions relating to the operation of this Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement this Plan. The Committee's determinations under this Plan shall be final and binding on all persons.

(c) FINANCIAL REPORTS. To the extent required by applicable law, and not less often than annually, the Company shall furnish to Participants the Company's summary financial information including a balance sheet regarding the Company's financial condition and results of operations, unless such Participants have duties with the Company that assure them access to equivalent information. Such financial statements need not be audited.

SECTION 4. ELIGIBILITY. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee. Only Key Employees who are common-law employees of the Company or a Subsidiary or of a Parent of the Company shall be eligible for the grant of ISOs. An Option may be granted to any Key Employee who is a 10-Percent Stockholder only if such Option meets the requirements set forth in section 422(c)(5) of the Code.

SECTION 5. SHARES SUBJECT TO THIS PLAN. The stock issuable under this Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares issued pursuant to this Plan at any time plus the aggregate number of Shares reserved for Awards under this Plan at such time shall not at any time exceed Sixteen Million (16,000,000) Shares (which number shall be subject to adjustment as provided in Section 8). If Options are forfeited or if Options terminate for any other reason before being exercised, then the Shares reserved for issuance pursuant to such Options shall again become available for Awards under this Plan. If Shares which were issued as Restricted Stock under this Plan are repurchased or otherwise reacquired by the Company, then such Shares shall again become available for Awards under this Plan.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) STOCK OPTION AGREEMENT. Each Option granted under this Plan shall be evidenced by a Stock Option Agreement between the Participant receiving such Option and the Company. All Options shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Option may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under this Plan need not be identical. Each Stock Option Agreement shall specify whether the Option is an ISO or a NSO.

(b) NUMBER OF SHARES. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 8. The number of shares covered by Options granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(c) EXERCISE PRICE. An Option's Exercise Price shall be established by the Committee and set forth in the Stock Option Agreement evidencing such Option. To the extent required by law, the Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Stockholders) of a Share on the date of grant. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the Exercise Price for an NSO may not be less than 85% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant. The Exercise Price for a NSO may also vary in accordance with a predetermined formula.

(d) EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, Options shall vest at least at the rate of 20% (or such other percentage as may be specified in any such law, rule or regulation) annually over a five-year period, subject to such reasonable conditions as may be specified in the Stock Option Agreement evidencing such Option. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent a Stock Option Agreement provides for vesting requirements, such requirements shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. Each Stock Option Agreement shall also specify the term of

the Option; provided that the term of an ISO, and to the extent required by applicable law, a NSO, shall in no event exceed ten (10) years from the date of grant (five (5) years for ISO's granted to 10-Percent Stockholders). Options shall be exercisable for the period or periods following termination of Service under different circumstances as may be set forth in the Stock Option Agreement; provided, however, that such period or periods shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. No Option may be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability upon the occurrence of certain events. A Stock Option Agreement may also permit the Participant holding an Option to exercise such Option before it is vested, subject to the Company's right to repurchase any Shares acquired under the unvested portion of the Option (an "early exercise") at cost, which right of repurchase shall lapse at the same rate as the Option would have vested had there been no early exercise. To the extent an Option permits early exercise, the Option Agreement shall set forth, or shall, as a condition to such exercise, require the Participant to enter into a Restricted Stock Agreement that sets forth, the terms, conditions and restrictions pertaining to the Restricted Stock acquired upon such early exercise, which terms, conditions and restrictions shall be consistent with the provisions of Section 7 of this Plan. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) EFFECT OF A CHANGE IN CONTROL. Except as may be otherwise provided in a particular Stock Option Agreement, in the event of a Change in Control, each outstanding Option shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or a subsidiary of such successor corporation, unless such successor corporation, Parent or subsidiary does not agree to assume the outstanding Options, in which case such Options shall terminate upon the consummation of the Change in Control; provided, however, that, except as may otherwise be provided in any Option Agreement, if any outstanding Option would otherwise terminate in accordance with the foregoing, the holder of such Option shall have the right, exercisable for a period of at least ten days prior to the consummation of such Change in Control, to exercise such Option in whole or in part without regard to the vesting provisions thereof. For purposes of this Section 6(e), an Option shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of an Option would be entitled to receive upon exercise of the Option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares covered by the Option at such time (after giving effect to any adjustments in the number of Shares covered by the Option as provided for in Section 8); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(f) MODIFICATIONS OR ASSUMPTION OF OPTIONS. Within the limitations of this Plan, the Committee may modify, extend or assume outstanding Options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer). The foregoing notwithstanding, no modification of an Option shall, without the consent of the Participant holding such Option, alter or impair his or her rights or obligations under such Option.

(g) RESTRICTIONS ON TRANSFER. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply with any requirements of any law, rule or regulation to the extent such compliance is required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations.

(h) PAYMENT OF EXERCISE PRICE OF OPTIONS. The Exercise Price of any Option shall be payable in cash or as otherwise expressly permitted by the provisions of the applicable Stock Option Agreement. A Stock Option Agreement may specify that payment for all or any part of the Exercise Price of any Option may be made (i) with Shares which have already been owned by the Participant exercising such Option for at least six months or for such other duration as may be specified by the Committee (such Shares shall be valued at their Fair Market Value on the date of exercise), (ii) with a full recourse promissory note or (iii) in any other form that is consistent with applicable laws, regulations and rules. The foregoing notwithstanding, the Exercise Price of an Option may be paid only as expressly provided in the applicable Stock Option Agreement, unless otherwise expressly authorized by the Committee.

SECTION 7. TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

(a) RESTRICTED STOCK AWARDS. Restricted Stock Awards may be granted by issuing Shares pursuant to the terms of a Restricted Stock Agreement between the Participant and the Company. Each Restricted Stock Award shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Restricted Stock Award may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Restricted Stock Agreement. The provisions of the various Restricted Stock Agreements entered into under this Plan need not be identical. The number of Shares covered by Restricted Stock Awards granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(b) PURCHASE PRICE. Without limiting the generality of clause (ii) of the first sentence of Section 7(a), to the extent required to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the purchase price for Restricted Stock purchased pursuant to a Restricted Stock Award shall be at least 85% (or such other percentage as

may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated, or (ii) 100% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated if the Participant receiving such Restricted Stock Award is a 10-Percent Stockholder at such time, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant or at the time of purchase.

(c) VESTING CONDITIONS. Each Restricted Stock Award shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. To the extent a Restricted Stock Award is subject to vesting requirements, such requirements (and the related repurchase rights with respect to vested and unvested shares) shall be such as to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. A Restricted Stock Agreement may provide for accelerated vesting upon the occurrence of certain events. Except as may be otherwise provided in a particular Restricted Stock Agreement, in the event the shares of Restricted Stock subject to any Restricted Stock Agreement are converted into any other kind of security or property (including cash) at any time by virtue of a merger, consolidation or reclassification, such security or property shall continue to be subject to the vesting restrictions set forth in such Restricted Stock Agreement following such conversion; provided, however, that if such transaction constitutes a Change in Control and the outstanding Options are not being assumed or replaced by equivalent options or rights as contemplated by the first sentence of Section 6(e) above (as a result of which, such Options may be exercised without regard to the vesting provisions thereof as provided in Section 6(e) above), then the vesting restrictions set forth in such Restricted Stock Agreement shall terminate upon such Change in Control and all of the shares of Restricted Stock shall be deemed vested upon the consummation of such Change in Control.

(d) VOTING RIGHTS. The holders of Restricted Stock shall have the same voting, dividend and other rights as the Company's other stockholders.

SECTION 8. CERTAIN ADJUSTMENTS. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of (i) the number and kind of securities available for future Awards; (ii) the number and kind of securities covered by each outstanding Option; and (iii) the Exercise Price of each outstanding Option. Except as provided in this Section 8 or to the extent a Participant holds Restricted Stock or Shares issued upon exercise of a Stock Option, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend. In the event that the Company is a party to a merger or other reorganization, outstanding Options and shares of Restricted Stock shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its Parent or

for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting and accelerated expiration, for settlement in cash or for cancellation.

SECTION 9. LIMITATIONS ON RIGHTS.

(a) RETENTION RIGHTS. Neither this Plan nor any Award granted under this Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Subsidiary or a Parent of the Company. The Company, each Subsidiary and each Parent of the Company reserve the right to terminate the service of any person at any time, and for any reason, subject to applicable laws and any written employment agreement with such person.

(b) STOCKHOLDERS' RIGHTS. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by any Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as otherwise expressly provided herein.

(c) REGULATORY REQUIREMENTS. Any other provision of this Plan notwithstanding, the obligation of the Company to issue Shares under this Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 10. WITHHOLDING TAXES. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with this Plan. The Company shall not be required to issue any Shares or make any cash payment under this Plan until such obligations are satisfied. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

SECTION 11. ASSIGNMENT OR TRANSFER OF AWARDS. Except as provided in Section 10, or in an applicable agreement, or as required by applicable law, an Award granted under this Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law; provided,

however, that this Section 11 shall not preclude a Participant from designating a beneficiary who will receive any outstanding Awards in the event of the Participant's death, nor shall it preclude a transfer of Awards by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Participant holding such Option only by such Participant or such Participant's guardian or legal representative. Any act in violation of this Section 11 shall be void. Except to the extent required to ensure that the granting of Options and Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, neither this Section 11 nor any other provision of this Plan shall preclude a Participant from transferring or assigning Shares issued or issuable upon exercise of an Option or shares of Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participants death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing, provided that a further transfer or assignment from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Shares held by such trustee shall be subject to all of the conditions and restrictions set forth in this Plan and in the applicable Award, as if such trustee were a party to such Award.

SECTION 12. DURATION AND AMENDMENTS. This Plan, as set forth herein, became effective on October 17, 2000, the date on which this Plan was adopted and approved by the Board and the sole stockholder of the Company. This Plan shall terminate on October 17, 2010 unless terminated prior to such date as provided in this Section 12. The Board may amend or terminate this Plan at any time and for any reason. The termination of this Plan, or any amendment thereof, shall not affect any Award previously granted under this Plan. No Awards shall be granted under this Plan after this Plan's termination. An amendment of this Plan shall be subject to the approval of the Company's stockholder(s) only to the extent required by any applicable laws, rules or regulations.

To record the adoption of this Plan by the Board and the approval of this Plan by the sole stockholder of the Company, the Company has caused this Plan to be executed by the undersigned officer of the Company as of the 17th day of October 2000.

KEEN PERSONAL MEDIA INC.

By: /s/ Russell M. Krapf

Title: President & CEO

EXHIBIT 10.53

SAGETREE, INC.
(AS AMENDED EFFECTIVE AS OF MAY 12, 2000)

2000 STOCK INCENTIVE PLAN

SECTION 1. INTRODUCTION. The Board of Directors (the "Board") of SageTree, Inc., a Delaware corporation (the "Company"), adopted the SageTree, Inc. 2000 Stock Incentive Plan (this "Plan") on March 28, 2000. This Plan was approved by the sole stockholder of the Company by written consent dated March 28, 2000. The purpose of this Plan is to promote the long-term success of the Company and the creation of stockholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications. This Plan seeks to achieve this purpose by providing for Awards in the form of Options (which may be Incentive Stock Options or Nonstatutory Stock Options) and Restricted Stock Awards. This Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions).

SECTION 2. DEFINITIONS. For the purposes of this Plan and any Stock Option Agreement or Restricted Stock Agreement, the following terms shall have the meanings indicated (unless otherwise provided in any Stock Option Agreement or Restricted Stock Agreement):

(a) "Award" means any Restricted Stock Award or any Option granted under this Plan.

(b) "Board" has the meaning set forth in the preamble hereto.

(c) "Change in Control" means (i) a sale of all or substantially all of the Company's assets, or (ii) any merger or consolidation of the Company with or into another corporation if, after the consummation of such transaction, the holders of the Company's capital stock immediately prior to such transaction do not hold, immediately following such transaction and by virtue of their ownership of such shares of capital stock, at least fifty percent (50%) of the voting power of the surviving corporation or a Parent of such surviving corporation. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer this Plan.

(f) Common Stock" means the Company's common stock, par value $0.001 per share.

(g) "Company" has the meaning set forth in the preamble hereto.

(h) "Consultant" means any individual who performs bona fide services to the Company or a Subsidiary other than as an Employee, a Director or a Non-Employee Director.

(i) "Director" means any member of the Board who is also a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(j) "Disability" means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(k) "Employee" means any individual who is a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Exercise Price" in the case of an Option, means the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement.

(n) "Fair Market Value" means the fair market value of a Share, as determined in good faith by the Committee on such basis as it deems appropriate.

(o) "Incentive Stock Option" or "ISO" means an incentive stock option described in Code section 422(b).

(p) "Key Employee" means an Employee, a Director, a Non-Employee Director or a Consultant who has been selected by the Committee to receive an Award under this Plan.

(q) "Non-Employee Director" means a member of the Board who is not a common-law employee of the Company, a Subsidiary or a Parent of the Company.

(r) "Nonstatutory Stock Option" or "NSO" means a stock option that is not an ISO.

(s) "Option" means an ISO or NSO granted under this Plan.

(t) "Parent" of a corporation (the "first corporation") means any other corporation in an unbroken chain of corporations ending with the first corporation, if each of the corporations other than the first corporation owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of such other corporations in such chain or of the first corporation.

(u) "Participant" means an individual or estate who holds an Award.

(v) "Plan" has the meaning set forth in the preamble hereto.

(w) "Restricted Stock" means Common Stock issued or sold to a Participant under this Plan, other than upon the exercise of an Option.

(x) "Restricted Stock Agreement" means the agreement between the Company and the Participant receiving a Restricted Stock Award which contains the terms, conditions and restrictions pertaining to such Restricted Stock Award.

(y) "Restricted Stock Award" means a grant or sale of Restricted Stock under this Plan.

(z) "Securities Act" means the Securities Act of 1933, as amended.

(aa) "Service" means, unless otherwise provided in any Award, service as an Employee, Director, Non-Employee Director of, or as a Consultant to, the Company or any Subsidiary.

(bb) "Share" means one share of Common Stock.

(cc) "Stock Option Agreement" means the agreement between the Company and the Participant receiving an Option that contains the terms, conditions and restrictions pertaining to such Option.

(dd) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of this Plan shall be considered a Subsidiary commencing as of such date.

(ee) "10-Percent Stockholder" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, or of any Parent of the Company or any Subsidiary. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

SECTION 3. ADMINISTRATION.

(a) Committee Composition. This Plan shall be administered by a Committee appointed by the Board. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been appointed, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

(b) Authority of the Committee. Subject to the provisions of this Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of this Plan. Such actions shall include (i) selecting Key Employees who are to receive Awards under this Plan, (ii) determining the type, number, vesting requirements and other features and conditions of such Awards, (iii) interpreting this Plan, and (iv) making all other decisions relating to the operation of this Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement this Plan. The Committee's determinations under this Plan shall be final and binding on all persons.

(c) Financial Reports. To the extent required by applicable law, and not less often than annually, the Company shall furnish to Participants the Company's summary financial information including a balance sheet regarding the Company's financial condition and results of operations, unless such Participants have duties with the Company that assure them access to equivalent information. Such financial statements need not be audited.

SECTION 4. ELIGIBILITY. Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee. Only Key Employees who are common-law employees of the Company or a Subsidiary or of a Parent of the Company shall be eligible for the grant of ISOs. An Option may be granted to any Key Employee who is a 10-Percent Stockholder only if such Option meets the requirements set forth in section 422(c)(5) of the Code.

SECTION 5. SHARES SUBJECT TO THIS PLAN. The stock issuable under this Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares issued pursuant to this Plan at any time plus the aggregate number of Shares reserved for Awards under this Plan at such time shall not at any time exceed 10,600,000 Shares (which number shall be subject to adjustment as provided in Section 8). If Options are forfeited or if Options terminate for any other reason before being exercised, then the Shares reserved for issuance pursuant to such Options shall again become available for Awards under this Plan. If Shares which were issued as Restricted Stock under this Plan are repurchased or otherwise reacquired by the Company, then such Shares shall again become available for Awards under this Plan.

SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) Stock Option Agreement. Each Option granted under this Plan shall be evidenced by a Stock Option Agreement between the Participant receiving such Option and the Company. All Options shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Option may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under this Plan need not be identical. Each Stock Option Agreement shall specify whether the Option is an ISO or a NSO.

(b) Number of Shares. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 8. The number of shares covered by Options granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(c) Exercise Price. An Option's Exercise Price shall be established by the Committee and set forth in the Stock Option Agreement evidencing such Option. To the extent required by law, the Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Stockholders) of a Share on the date of grant. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the Exercise Price for an NSO may not be less than 85% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant. The Exercise Price for a NSO may also vary in accordance with a predetermined formula.

(d) Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, Options shall vest at least at the rate of 20% (or such other percentage as may be specified in any such law, rule or regulation) annually over a five-year period, subject to such reasonable conditions as may be specified in the Stock Option Agreement evidencing such Option. Without limiting the generality of clause (ii) of the first sentence of Section 6(a), to the extent a Stock Option Agreement provides for vesting requirements, such requirements shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. Each Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO,

and to the extent required by applicable law, a NSO, shall in no event exceed ten (10) years from the date of grant (five (5) years for ISO's granted to 10-Percent Stockholders). Options shall be exercisable for the period or periods following termination of employment under different circumstances as may be set forth in the Stock Option Agreement; provided, however, that such period or periods shall be such as to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. No Option may be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability upon the occurrence of certain events. A Stock Option Agreement may permit the Participant holding an Option to exercise such Option before it is vested, subject to the Company's right to repurchase any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) Effect of a Change in Control. Except as may be otherwise provided in a particular Stock Option Agreement, in the event of a Change in Control, each outstanding Option shall be assumed or an equivalent option or right shall be substituted by the successor corporation or a Parent or a subsidiary of such successor corporation, unless such successor corporation, Parent or subsidiary does not agree to assume the outstanding Options, in which case such Options shall terminate upon the consummation of the transaction. For purposes of this Section 6(e), an Option shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Change in Control, each holder of an Option would be entitled to receive upon exercise of the Option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the transaction if the holder had been, immediately prior to such transaction, the holder of the number of Shares covered by the Option at such time (after giving effect to any adjustments in the number of Shares covered by the Option as provided for in Section 8); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(f) Modifications or Assumption of Options. Within the limitations of this Plan, the Committee may modify, extend or assume outstanding Options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer). The foregoing notwithstanding, no modification of an Option shall, without the consent of the Participant holding such Option, alter or impair his or her rights or obligations under such Option.

(g) Restrictions on Transfer. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that

may apply to holders of Shares generally and shall also comply with any requirements of any law, rule or regulation to the extent such compliance is required to ensure that the granting of Options under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations.

(h) Payment of Exercise Price of Options. The Exercise Price of any Option shall be payable in cash or as otherwise expressly permitted by the provisions of the applicable Stock Option Agreement. A Stock Option Agreement may specify that payment for all or any part of the Exercise Price of any Option may be made (i) with Shares which have already been owned by the Participant exercising such Option for at least six months or for such other duration as may be specified by the Committee (such Shares shall be valued at their Fair Market Value on the date of exercise), (ii) with a full recourse promissory note or (iii) in any other form that is consistent with applicable laws, regulations and rules. The foregoing notwithstanding, the Exercise Price of an Option may be paid only as expressly provided in the applicable Stock Option Agreement, unless otherwise expressly authorized by the Committee.

SECTION 7. TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

(a) Restricted Stock Awards. Restricted Stock Awards may be granted by issuing Shares pursuant to the terms of a Restricted Stock Agreement between the Participant and the Company. Each Restricted Stock Award shall be subject to (i) all applicable terms and conditions of this Plan and (ii) any and all terms and conditions that are necessary to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. In addition, any Restricted Stock Award may be subject to such other terms and conditions not inconsistent with this Plan that the Committee deems appropriate for inclusion in a Restricted Stock Agreement. The provisions of the various Restricted Stock Agreements entered into under this Plan need not be identical. The number of Shares covered by Restricted Stock Awards granted to any Participant shall not exceed 5,000,000 (which number shall be subject to adjustment as provided in Section 8).

(b) Purchase Price. Without limiting the generality of clause (ii) of the first sentence of Section 7(a), to the extent required to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, the purchase price for Restricted Stock purchased pursuant to a Restricted Stock Award shall be at least 85% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated, or (ii) 100% (or such other percentage as may be specified in any such law, rule or regulation) of the Fair Market Value of a Share on the date of grant or at the time the purchase is consummated if the Participant receiving such Restricted Stock Award is a 10-Percent Stockholder at such time, but otherwise need not be equal to or greater than, or any percentage of, Fair Market Value on the date of grant or at the time of purchase.

(c) Vesting Conditions. Each Restricted Stock Award shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. To the extent a Restricted Stock Award is subject to vesting requirements, such requirements (and the related repurchase rights with respect to vested and unvested shares) shall be such as to ensure that the granting of Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations. A Restricted Stock Agreement may provide for accelerated vesting upon the occurrence of certain events. Except as may be otherwise provided in a particular Restricted Stock Agreement, in the event the shares of Restricted Stock subject to any Restricted Stock Agreement are converted into any other kind of security or property (including cash) at any time by virtue of a merger, consolidation or reclassification, such security or property shall continue to be subject to the vesting and other restrictions set forth in such Restricted Stock Agreement following such conversion.

(d) Voting Rights. The holders of Restricted Stock shall have the same voting, dividend and other rights as the Company's other stockholders.

SECTION 8. CERTAIN ADJUSTMENTS. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of the number and kind of securities available for future Awards; the number and kind of securities covered by each outstanding Option; and the Exercise Price of each outstanding Option. Except as provided in this Section 8 or to the extent a Participant holds Restricted Stock or Shares issued upon exercise of a Stock Option, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class, or the payment of any stock dividend. In the event that the Company is a party to a merger or other reorganization, outstanding Options and shares of Restricted Stock shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its Parent or for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting and accelerated expiration, for settlement in cash or for cancellation.

SECTION 9. LIMITATIONS ON RIGHTS.

(a) Retention Rights. Neither this Plan nor any Award granted under this Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Subsidiary or a Parent of the Company. The Company, each Subsidiary and each Parent of the Company reserve the right to terminate the service of any person at any time, and for any reason, subject to applicable laws and any written employment agreement with such person.

(b) Stockholders' Rights. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by any Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends

or other rights for which the record date is prior to the date when such certificate is issued, except as otherwise expressly provided herein.

(c) Regulatory Requirements. Any other provision of this Plan notwithstanding, the obligation of the Company to issue Shares under this Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 10. WITHHOLDING TAXES. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with this Plan. The Company shall not be required to issue any Shares or make any cash payment under this Plan until such obligations are satisfied. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

SECTION 11. ASSIGNMENT OR TRANSFER OF AWARDS. Except as provided in Section 10, or in an applicable agreement, or as required by applicable law, an Award granted under this Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law; provided, however, that this Section 11 shall not preclude a Participant from designating a beneficiary who will receive any outstanding Awards in the event of the Participant's death, nor shall it preclude a transfer of Awards by will or by the laws of descent and distribution.. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Participant holding such Option only by such Participant or such Participant's guardian or legal representative. Any act in violation of this Section 11 shall be void. Except to the extent required to ensure that the granting of Options and Restricted Stock Awards under this Plan is exempt from the qualification or registration requirements of all applicable federal and state securities laws, rules and regulations, neither this Section 11 nor any other provision of this Plan shall preclude a Participant from transferring or assigning Shares issued or issuable upon exercise of an Option or shares of Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing, provided that a further transfer or assignment from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Shares held by such trustee

shall be subject to all of the conditions and restrictions set forth in this Plan and in the applicable Award, as if such trustee were a party to such Award.

SECTION 12. DURATION AND AMENDMENTS. This Plan, as set forth herein, became effective on March 28, 2000, the date on which this Plan was adopted and approved by the Board and the sole stockholder of the Company. This Plan shall terminate on March 28, 2010 unless terminated prior to such date as provided in this Section 12. The Board may amend or terminate this Plan at any time and for any reason. The termination of this Plan, or any amendment thereof, shall not affect any Award previously granted under this Plan. No Awards shall be granted under this Plan after this Plan's termination. An amendment of this Plan shall be subject to the approval of the Company's stockholder(s) only to the extent required by any applicable laws, rules or regulations.

To record the amendment of this Plan effective as of May 12, 2000, the Company has caused this Plan to be executed by the undersigned officer of the Company.

SAGETREE, INC.

By: /s/ Gerald L. Hill

Title: Founder & Interim CEO

EXHIBIT 21

WESTERN DIGITAL CORPORATION

SUBSIDIARIES OF THE COMPANY

Name	State or other Jurisdiction of Incorporation
Western Digital Technologies, Inc.	Delaware
Western Digital Ventures, Inc.	Delaware
Pacifica Insurance Corporation	Hawaii
Western Digital Canada Corporation	Ontario, Canada
Western Digital (Deutschland) GmbH	Germany
Western Digital (France) SARL	France
Western Digital Hong Kong Limited	Hong Kong
Western Digital Ireland, Ltd.	Cayman Islands
Western Digital (I.S.) Limited	Ireland
Western Digital Japan Ltd.	Japan
Western Digital (Malaysia) Sdn. Bhd.	Malaysia
Western Digital Netherlands B.V.	The Netherlands
Connex, Inc.	Delaware
SANavigator, Inc.	Delaware
SageTree, Inc.	Delaware
Cameo Technologies, Inc. (FKA wdc.net.inc.)	Delaware
TereoTek, Inc.	Delaware
Keen Personal Media, Inc.	Delaware
Keen Personal Technologies, Inc.	Delaware
Western Digital (S.E.Asia) Pte Ltd	Singapore
Western Digital (Singapore) Pte Ltd	Singapore
Western Digital Taiwan Co., Ltd.	Taiwan, R.O.C.
Western Digital (Tuas - Singapore) Pte Ltd	Singapore
Western Digital (U.K.) Limited	England

Except for Connex, Inc. (“Connex”), SageTree, Inc. (“SageTree”), Keen Personal Media, Inc. (“Keen”) and SANavigator, Inc. (“SANavigator”), all of the above-named subsidiaries are 100% owned, directly or indirectly, by Western Digital Corporation. Connex, SageTree, Keen and SANavigator are each majority owned by Western Digital Corporation.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors

Western Digital Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 2-76179, 2-97365, 33-9853, 33-24585, 33-33365, 33-56128, 33-57953, 33-15771, 33-60166, 33-60168, 33-51725, 333-20359, 333-31487, 333-41423, 333-42991, 333-70413, 333-95499, 333-36332 and 333-56738) on Form S-8 of Western Digital Corporation and in the registration statements (Nos. 333-70785, 333-36350 and 333-49250) on Form S-3 of Western Digital Corporation of our report dated July 25, 2001, except as to Notes 4 and 10, which are as of September 21, 2001, related to the consolidated balance sheets of Western Digital Corporation and subsidiaries as of June 30, 2000 and June 29, 2001 and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended June 29, 2001, and the related financial statement schedule, which report appears in the June 29, 2001 annual report on Form 10-K of Western Digital Corporation.

KPMG LLP

Orange County, California

September 27, 2001