UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 28, 1998.

OR

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

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE	95-2647125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8105 Irvine Center Drive Irvine, California	92618
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE (949) 932-5000

N/A

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

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

Number of shares outstanding of Common Stock, as of April 25, 1998 is 88,174,629.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE-MONTH PERIOD ENDED	
	MAR. 29, 1997	MAR. 28, 1998
Revenues, net	$1,096,212	$ 831,294
Costs and expenses:		
Cost of revenues	911,357	795,015
Research and development	39,672	46,949
Selling, general and administrative	51,121	47,551
Total costs and expenses	1,002,150	889,515
Operating income (loss)	94,062	(58,221)
Net interest income (expense) (Note 3)	3,109	(536)
Income (loss) before income taxes	97,171	(58,757)
Provision (benefit) for income taxes	14,576	(13,735)
Net income (loss)	$ 82,595	$ (45,022)
Earnings (loss) per common share (Note 2):		
Basic	$ .95	$ (.51)
Diluted	$ .88	$ (.51)
Common shares used in computing per share amounts (Note 2):		
Basic	87,212	87,812
Diluted	94,036	87,812

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

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	NINE-MONTH PERIOD ENDED	
	MAR. 29, 1997	MAR. 28, 1998
Revenues, net	$3,097,974	$2,891,022
Costs and expenses:		
Cost of revenues	2,636,841	2,749,232
Research and development	109,933	133,723
Selling, general and administrative	149,534	141,423
Total costs and expenses	2,896,308	3,024,378
Operating income (loss)	201,666	(133,356)
Net interest income (expense) (Note 3)	9,749	4,067
Income (loss) before income taxes	211,415	(129,289)
Provision (benefit) for income taxes	31,713	(1,791)
Net income (loss)	$ 179,702	$ (127,498)
Earnings (loss) per common share (Note 2):		
Basic	$ 2.05	$ (1.46)
Diluted	$ 1.92	$ (1.46)
Common shares used in computing per share amounts (Note 2):		
Basic	87,550	87,291
Diluted	93,800	87,291

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

WESTERN DIGITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JUNE 28, 1997	MAR. 28, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 208,276	$ 577,804
Accounts receivable, less allowance for doubtful accounts of $11,706 at June 28, 1997 and $14,615 at March 28, 1998	545,552	475,302
Inventories (Note 3)	224,474	217,205
Prepaid expenses	39,593	57,987
Total current assets	1,017,895	1,328,298
Property and equipment at cost, net	247,895	347,382
Intangible and other assets, net	41,332	47,712
Total assets (Note 6)	$1,307,122	$1,723,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 417,984	$ 430,003
Accrued compensation	59,227	25,099
Accrued expenses	176,494	233,730
Total current liabilities	653,705	688,832
Long-term debt (Notes 6 and 8)	--	513,149
Deferred income taxes	33,430	34,609
Commitments and contingent liabilities (Note 7)		
Shareholders' equity:		
Preferred stock, $.01 par value; Authorized: 5,000 shares Outstanding: None	--	--
Common stock, $.01 par value; Authorized: 225,000 shares Outstanding: 101,332 shares at June 28, 1997 and at March 28, 1998	1,013	1,013
Additional paid-in capital	356,654	333,843
Retained earnings	488,066	360,568
Treasury stock-common stock at cost; 15,436 shares at June 28, 1997 and 13,213 shares at March 28, 1998 (Note 4)	(225,746)	(208,622)
Total shareholders' equity	619,987	486,802
Total liabilities and shareholders' equity	$1,307,122	$1,723,392

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

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	NINE-MONTH PERIOD ENDED	
	MAR. 29, 1997	MAR. 28, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 179,702	$ (127,498)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	46,368	73,834
Interest accrued on convertible debentures	--	3,020
Changes in current assets and liabilities:		
Accounts receivable	(176,153)	70,250
Inventories	(23,421)	7,269
Prepaid expenses	1,129	(18,394)
Accounts payable, accrued compensation and accrued expenses	176,593	35,127
Other assets	535	1,335
Deferred income taxes	(827)	1,179
Net cash provided by operating activities	203,926	46,122
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in short-term investments	36,598	--
Capital expenditures, net	(105,360)	(167,693)
Decrease (increase) in other assets	(8,319)	4,825
Net cash used for investing activities	(77,081)	(162,868)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debentures (Note 8)	--	460,129
Proceeds from issuance of bank debt (Note 6)	--	50,000
Debt issuance costs	--	(18,168)
Common stock repurchase program (Note 4)	(102,209)	(28,304)
Exercise of stock options, including tax benefit	11,176	9,933
Proceeds from ESPP shares issued	9,127	12,684
Net cash provided by (used for) financing activities	(81,906)	486,274
Net increase in cash and cash equivalents	44,939	369,528
Cash and cash equivalents, beginning of period	182,565	208,276
Cash and cash equivalents, end of period	$ 227,504	$ 577,804

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for income taxes	$ 8,561	$ 14,519
Cash paid during the period for interest	$ --	$ 996

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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accounting policies followed by the Company are set forth in Note 1 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 28, 1997.

2. Effective December 27, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). This statement replaces the previously reported primary and fully diluted earnings (loss) per share with basic and diluted earnings (loss) per share. Unlike primary earnings (loss) per share, basic earnings (loss) per share excludes any dilutive effects of options. Diluted earnings (loss) per share is very similar to the previously reported fully diluted earnings (loss) per share. All earnings (loss) per share amounts have been restated to conform to the SFAS No. 128 requirements.

The following table illustrates the computation of basic and diluted earnings (loss) per share:

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERIOD ENDED	
	MAR. 29, 1997	MAR. 28, 1998	MAR. 29, 1997	MAR. 28, 1998
Numerator:				
Numerator for basic and diluted earnings (loss) per share -- net income (loss).................	$ 82,595	$ (45,022)	$ 179,702	$ (127,498)
Denominator:				
Denominator for basic earnings (loss) per share -- weighted average number of common shares outstanding during the period........................	87,212	87,812	87,550	87,291
Incremental common shares attributable to exercise of outstanding options, put options and ESPP contributions........	6,824	--	6,250	--
Denominator for diluted earnings (loss) per share..............	94,036	87,812	93,800	87,291
Basic earnings (loss) per share.	$ .95	$ (.51)	$ 2.05	$ (1.46)
Diluted earnings (loss) per share	$ .88	$ (.51)	$ 1.92	$ (1.46)

The computation of diluted loss per share for the three-month and nine-month periods ended March 28, 1998 excluded the effect of incremental common shares attributable to conversion of outstanding convertible subordinated debentures into common stock and to the exercise of outstanding common stock options, put options and ESPP contributions because their effect was antidilutive. Substantially all options to purchase shares of common stock were included in the computation of diluted earnings per share for the three-month and nine-month periods ended March 29, 1997. As a result of adopting FAS 128, diluted earnings (loss) per share for fiscal years 1993 through 1997 was ($.39), $.86, $1.23, $1.01 and $2.86, respectively.

3. Supplemental Financial Statement Data (in thousands)

	JUNE 28, 1997	MARCH 28, 1998
Inventories		
Finished goods..........................	$ 137,762	$ 134,254
Work in process.........................	56,352	53,095
Raw materials and component parts........	30,360	29,856
	$ 224,474	$ 217,205

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERIOD ENDED	
	MAR. 29, 1997	MAR. 28, 1998	MAR. 29, 1997	MAR. 28, 1998
Net Interest Income (Expense)				
Interest income...............	$ 3,109	$ 3,792	$ 9,749	$ 8,395
Interest expense.............	--	(4,328)	--	(4,328)
Net interest income (expense).	$ 3,109	$ (536)	$ 9,749	$ 4,067

4. During the nine months ended March 28, 1998, approximately 1,231,000 and 992,000 shares were distributed in connection with the Employee Stock Purchase Plan ("ESPP") and common stock option exercises, respectively, for $20.3 million. In addition, during the nine months ended March 28, 1998, the Company paid $28.3 million to settle certain put option arrangements entered into in connection with its open market stock repurchase program. Under this program, the Company, since February 1995, has spent approximately $315 million in connection with the repurchase of approximately 22.2 million shares of its common stock at an average price of $14.15 per share.

5. In the opinion of management, all adjustments necessary to fairly state the consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 28, 1997.

6. On January 28, 1998, the Company replaced its then existing revolving credit facility with a secured revolving credit and term loan facility ("Senior Bank Facility"). The Senior Bank Facility provides the Company with a $200 million revolving credit line and a $50 million term loan, both of which expire in January 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either Libor plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility requires the Company to maintain certain financial ratios, restricts the payment of dividends and contains a number of other restrictive covenants. As of March 28, 1998, the $50 million term loan was funded but there were no borrowings under the revolving credit line.

7. Between December 12, 1997 and February 24, 1998, eight class action suits were filed against the Company and certain of its officers and directors. The plaintiffs in the actions purport to represent purchasers of the Company's common stock during various periods ranging from July 25, 1996 through December 2, 1997 (collectively, the "Class Periods"). The complaints allege that the Company issued false and misleading statements during the respective Class Periods concerning the outlook for the Company's operations and earnings and that the Company issued false and misleading financial statements in fiscal years 1996 and 1997 by improperly deferring the write-down of obsolete inventory. The complaints seek compensatory damages for the purported class members in an unspecified amount. On April 6, 1998, the court ordered the cases consolidated and designated the plaintiffs in the first case filed as the lead plaintiffs and the law firm representing such plaintiffs as lead counsel. The lead counsel filed an amended consolidated complaint on April 27, 1998. On May 11, 1998, the Company filed a motion to dismiss the amended consolidated complaint. The Company's directors & officers liability insurance carrier has been notified of these claims and has acknowledged its responsibility to defend, subject to a reservation of rights. Although there has been no discovery conducted in these cases to date, the Company believes that it has meritorious defenses to the claims and intends to vigorously defend itself. The Company does not believe that the outcome of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity. However, such litigation could result in substantial costs and a diversion of resources and management's attention.

8. On February 18, 1998, the Company received gross proceeds of $460.1 million (before the Initial Purchasers' discount) from a private offering of 5.25% zero coupon convertible subordinated debentures due in 2018. The principal amount at maturity of the debentures is $1.3 billion. The debentures are subordinated to all senior debt; are convertible into 19.4 million shares of the Company's common stock at the rate of 14.935 shares per $1,000 principal amount at maturity; 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 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), at the issue price plus accrued original issue discount to the date of redemption.

THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. 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, ITS DIRECTORS OR ITS OFFICERS WITH RESPECT TO, AMONG OTHER THINGS: (I) THE FINANCIAL PROSPECTS OF THE COMPANY; (II) THE COMPANY'S FINANCING PLANS; (III) TRENDS AFFECTING THE COMPANY'S FINANCIAL CONDITION OR OPERATING RESULTS; (IV) THE COMPANY'S STRATEGIES FOR GROWTH, OPERATIONS, AND PRODUCT DEVELOPMENT AND COMMERCIALIZATION; AND (V) CONDITIONS OR TRENDS IN OR FACTORS AFFECTING THE HARD DRIVE INDUSTRY. WHEN USED IN THIS REPORT, THE WORDS "ANTICIPATES," "BELIEVES," "EXPECTS," "INTENDS," "FORECASTS," "PLANS," "FUTURE," "STRATEGY," OR WORDS OF SIMILAR IMPORT ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS INCLUDING WITHOUT LIMITATION, THE HIGHLY COMPETITIVE NATURE OF THE HARD DRIVE INDUSTRY, WHICH IS CHARACTERIZED BY PERIODS OF SEVERE PRICE COMPETITION AND PRICE EROSION, WHICH CAN RESULT IN SHIFTING MARKET SHARE; AND RAPID TECHNOLOGICAL CHANGES, WHICH REQUIRE THE COMPANY TO CONTINUALLY DEVELOP NEW HARD DRIVE PRODUCTS INCORPORATING NEW TECHNOLOGY ON A TIMELY AND COST-EFFECTIVE BASIS, AND WHICH CAN ALSO ADVERSELY AFFECT THE VOLUME AND PROFITABILITY OF SALES OF EXISTING PRODUCTS AND INCREASE THE RISK OF INVENTORY OBSOLESENCE. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLISH REVISED FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY TO ADVISE INTERESTED PARTIES OF CERTAIN RISKS AND OTHER FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS AND OPERATING RESULTS AND CAUSE ACTUAL RESULTS TO DIFFER FROM THOSE ANTICIPATED IN FORWARD-LOOKING STATEMENTS, INCLUDING THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THIS REPORT, AS WELL AS THE COMPANY'S OTHER PERIODIC REPORTS ON FORMS 10-K, 10-Q AND 8-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

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

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

RECENT DEVELOPMENTS

On April 30, 1998 the Company and IBM Corporation ("IBM") entered into a letter of intent for a broad-based hard drive component supply and technology licensing agreement. The parties intend to include a wide range of options involving the design and manufacture of desktop hard drives in the definitive agreement. IBM plans to supply the Company with its giant magneto-resistive ("GMR") heads and other components for desktop hard drives. The Company initially anticipates using the IBM technology and designs to simultaneously integrate IBM's GMR heads and components into the Company's future hard drives. The Company expects to introduce desktop hard drives based on IBM products and designs in the first half of calendar year 1999. The parties are in the process of establishing the final terms of the relationship which is expected to become effective upon the execution of a definitive agreement. See "Certain Factors Affecting Western Digital Corporation and/or the Disk Drive Industry - Technology License and Component Supply Transaction with IBM."

RESULTS OF OPERATIONS

The Company recorded $148 million of special charges in the second quarter of 1998. The special charges include estimated component cancellation charges, inventory and other asset write-downs, costs incurred during the second quarter on terminated mobile PC engineering programs, and other estimated incremental costs related to the production, sale, and accelerated wind-down of thin film products and ramp-up of products with magneto-resistive ("MR") heads. Of this amount, approximately $50 million consisted of non-cash items, approximately $33 million and $23 million utilized cash in the second and third quarters of 1998, respectively, and the majority of the balance will require cash expenditures during the fourth quarter of 1998. While some of the Company's estimates of the individual components of the special charges have changed since the second quarter of 1998, the total amount is not expected to be materially different than the original $148 million recorded in the second quarter of 1998. However, the special charges are based upon a number of estimates and assumptions and the actual costs incurred by the Company in connection with these actions may exceed the charges recorded.

Consolidated revenues were $831.3 million in the third quarter of 1998, a decrease of 24% and 14% from the third quarter of the prior year and the immediately preceding quarter, respectively. Consolidated revenues were $2.9 billion in the first nine months of 1998, down 7% from the corresponding period of 1997. The decline in revenues in the current quarter stemmed from 12% and 10% reductions in hard drive unit shipments as compared to the corresponding quarter of the prior year and the immediately preceding quarter, respectively, and reductions in the average selling prices of hard drive products due to an intensely competitive hard drive business environment. Revenues in the first nine months of 1998 declined from the corresponding period of the prior year despite a 2% overall increase in hard drive unit shipments primarily as a result of reductions in the average selling prices of hard drive products. The decline in average selling prices stemmed from an intensely competitive hard drive business environment, particularly during the second and third quarters of 1998.

The reduction in gross profit margin from the corresponding periods of the prior year was primarily related to unusually severe competitive pricing pressures experienced in the desktop storage market during the second and third quarters of 1998. The Company also experienced higher assembly costs associated with extending the life of thin film head technology in desktop storage products and transitioning to hard drives utilizing MR heads. The $148 million of special charges recorded in the second quarter of 1998 also contributed to the decline in gross profit margin in the first nine months of 1998 as compared to the corresponding period of 1997. Partially offsetting these amounts were incremental sales of the Company's enterprise storage products, which have higher average gross profit margins than the Company's desktop storage products. The improvement in gross profit margin from the immediately preceding quarter is primarily the result of special charges recorded in the second quarter of 1998, partially offset by abnormally large price declines during the current quarter.

Research and development ("R&D") expense for the current quarter was $46.9 million, an increase of $7.3 million and $2.5 million over the third quarter of the prior year and the immediately preceding quarter, respectively. R&D expense for the first nine months of 1998 was $133.7 million, an increase of $23.8 million over the corresponding period of the prior year. The increases in absolute dollars spent over the corresponding periods of the prior year are primarily associated with higher expenditures to support the development of hard drives for the personal computer market. The increase in R&D expense over the immediately preceding quarter primarily relates to incremental expenditures to support the development of enterprise hard drives.

Selling, general and administrative ("SG&A") expense for the third quarter of 1998 was $47.6 million, a decrease of $3.6 million from the corresponding quarter of 1997. SG&A expense for the first nine months of 1998 was $141.4 million, a decrease of $8.1 million from the corresponding period of the prior year. The decrease from the third quarter of 1997 and the first nine months of 1997 is primarily the result of lower expenses for the Company's pay-for-performance and profit sharing plans.

Net interest expense for the current quarter was $.5 million, compared with net interest income of $3.1 million and $2.0 million in the third quarter of the prior year and the immediately preceding quarter, respectively. Net interest income for the first nine months of 1998 was $4.1 million, a decrease of $5.7 million from the corresponding period of the prior year. The declines in net interest income are primarily attributable to interest expense incurred on the Company's recently funded long-term debt consisting of a $50.0 million term loan, which is part of the Company's Senior Bank Facility, and accrual of original issue discount on the Company's convertible subordinated debentures due 2018. No debt was outstanding during any of the comparable periods. Partially offsetting these decreases was incremental interest income earned on the cash and cash equivalents balance in the current quarter, which was higher than historical levels due to the proceeds from the sale of the debentures and borrowings under the Senior Bank Facility.

The Company's effective tax rate for the three and nine-month periods ended March 29, 1997 results primarily from the earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with United States statutory rates and changes in the deferred tax asset valuation allowance. The income tax benefit recorded in the three and nine-month periods ended March 28, 1998 represents the expected benefit of loss carrybacks, partially offset by provisions for income taxes recorded in certain jurisdictions that had positive earnings.

LIQUIDITY AND CAPITAL RESOURCES

At March 28, 1998, the Company had $577.8 million in cash and cash equivalents as compared to $208.3 million at June 28, 1997. Net cash provided by operating activities was $46.1 million for the nine-month period ended March 28, 1998, compared to $203.9 million for the nine-month period ended March 29, 1997. Cash flows from depreciation and amortization, lower accounts receivable and inventory balances, and an increase in total operating liabilities were partially offset by cash used to fund higher prepaid expense balances and the net loss. Another significant use of cash during the first nine months of 1998 was capital expenditures of $167.7 million, which were incurred primarily in connection with the transition to desktop and enterprise hard drives featuring MR head technology, normal replacement of existing assets and the acquisition of land for the Company's new headquarters.

The Company has a credit facility ("Senior Bank Facility"), pursuant to which BankBoston, N.A. and other lending institutions are providing a $200 million revolving credit line and a $50 million term loan, both of which expire in January 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility requires the Company to maintain certain financial ratios, restricts the payment of dividends and contains a number of other restrictive covenants. As of the date hereof, the $50 million term loan was funded but there were no borrowings under the revolving credit line. The Senior Bank Facility is intended to meet short-term working capital requirements which may arise from time to time.

On February 18, 1998, the Company received gross proceeds of $460.1 million (before the Initial Purchasers' discount) from a private offering of 5.25% zero coupon convertible subordinated debentures due in 2018. The principal amount at maturity of the debentures is $1.3 billion. The debentures are subordinated to all senior debt; are convertible into 19.4 million shares of the Company's common stock at the rate of 14.935 shares per $1,000 principal amount at maturity; 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 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), at the issue price plus accrued original issue discount to the date of redemption.

On December 29, 1997, the Company purchased approximately 34 acres of land in Irvine, California for approximately $22 million. The Company is negotiating synthetic lease financing for construction of a new corporate headquarters on this site. The new headquarters facility is not expected to materially increase the Company's occupancy costs. However, there can be no assurance that the Company will be successful in entering into a leasing arrangement for this property on terms that will be satisfactory to the Company and other alternatives available to the Company upon expiration of its current headquarters lease could be more costly.

The Company believes that its current cash balances combined with cash flow from operations and the Senior Bank Facility will be sufficient to meet its working capital needs for the foreseeable future. However, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Certain Factors Affecting Western Digital Corporation and/or the Hard Drive Industry."

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 130 and 131, "Reporting Comprehensive Income" ("SFAS 130") and "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), respectively (collectively, the "Statements"). The Statements are effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for reporting of comprehensive income and its components in annual financial statements. 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. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS 130 and SFAS 131, respectively. Application of the Statements' requirements is not expected to have a material impact on the Company's consolidated financial position, results of operations or earnings per share as currently reported.

YEAR 2000

The Company is currently assessing the cost to remediate its Year 2000 issues. Although the actual cost to remediate these issues is not yet fully known, based upon information to date, it is not expected that the remediation will have a material adverse effect on the Company's financial position, results of operations or liquidity. See "Certain Factors Affecting Western Digital Corporation and/or the Disk Drive Industry - Year 2000 Issue."

CERTAIN FACTORS AFFECTING WESTERN DIGITAL CORPORATION AND/OR THE DISK DRIVE INDUSTRY

Highly Competitive Industry. The desktop portion of the hard drive industry consists of many competitors of various sizes and financial resources. The desktop hard drive industry is currently experiencing a period of sustained oversupply and unusually severe pricing pressures which have resulted in price competition and price erosion that the Company expects to continue for the foreseeable future.

During 1996 and 1997, the Company significantly increased its market share in the desktop hard drive market, but some of the Company's market share eroded in the second and third quarter of 1998, primarily due to competitive conditions in the disk drive industry (with resulting cut backs in production) and the timing of the Company's transition from thin film to magneto-resistive ("MR") head technology. There can be no assurance that the Company will be able to recover recent market share losses or that it will not suffer further market share erosion. Seagate, Quantum, IBM, Maxtor, Fujitsu and Samsung are the major competitors in the data storage business, and Maxtor, Fujitsu and Samsung have recently gained significant market share in the desktop market. The current intensely competitive conditions in this market make it difficult to forecast near-term operating results. This competitive environment has adversely affected the Company's operating results for the first three quarters of 1998, and the Company expects these conditions to continue for at least the remainder of 1998 and first half of 1999.

The enterprise portion of the hard drive market is more concentrated than the desktop portion, with the largest competitor, Seagate, having a market share in excess of 50% in recent years. The Company entered this market in 1997 and competes with Seagate, Quantum, IBM and Fujitsu. Because the number of competitors in this market has increased, the Company expects that price competition in the enterprise market will increase. The Company's continued success in the enterprise hard drive market is heavily dependent on the successful development, timely introduction and market acceptance of new products, and failure to achieve such success could adversely affect the Company's financial condition or operating results.

In general, the unit price for a given product in both the desktop and enterprise markets decreases over time as increases in industry supply and cost reductions occur and as technological advancements are achieved. Cost reductions result primarily from volume efficiencies, component cost reductions, manufacturing experience and design enhancements that are generally realized over the life of a product. Competitive pressures and customer expectations compel manufacturers to pass these cost reductions along as reductions in selling prices. The rate of general price decline accelerates when some competitors lower prices to absorb excess capacity, liquidate excess inventories or attempt to gain market share. Competition and continuing price erosion could adversely affect the Company's financial condition or operating results in any given quarter. Often, such adverse effects cannot be anticipated until late in the quarter.

Rapid Technological Change and Product Development. The demands of hard drive customers for greater storage capacity and higher performance have led to short product life cycles, which require the Company to constantly develop and introduce new drive products on a cost-effective and timely basis. The Company's expenditure of research and development funds to support rapid technological change depends upon its revenues and profitability, and reductions in such expenditures could impair the Company's ability to innovate and compete.

The Company experiences fluctuations in manufacturing yields that can materially affect the Company's operations, particularly in the start-up phase of new products or new manufacturing processes, and also at the end of a technology's life cycle, when refinements designed to reach the product's technical limits can result in tighter manufacturing tolerances. With the continued pressures to shorten the time required to introduce new products, the Company must accelerate production learning curves to shorten the time to achieve acceptable manufacturing yields and costs. The Company's future is therefore dependent upon its ability to develop new products, qualify these new products with its customers, successfully introduce these products to the market on a timely basis and commence volume production to meet customer demands. If not carefully planned and executed, the transition to new products may adversely affect sales of existing products and increase risk of inventory obsolescence. A delay in the introduction or production of more cost-effective and/or more advanced products also can result in lower sales and lower gross margins. Because of rapid technological changes, the Company anticipates that sales of older products will decline as in the past and that sales of new products will continue to account for a significant portion of its sales in the future. Failure of the Company to execute its strategy of achieving time-to-market in sufficient volume with new products, or any delay in the introduction of advanced and cost-effective products, could result in significantly lower revenue and gross margins. Some of these factors have adversely affected the Company in connection with the maturation of and transition from thin film recording head technology.

Advances in magnetic, optical or other technologies, or the development of entirely new technologies, could result in the creation of competitive products that have better performance and/or lower prices than the Company's products. Companies such as TeraStor and Seagate are currently developing optically-assisted recording technologies. The initial products from such companies are expected to be high capacity and high price, although cost-effective per gigabyte. The optically-assisted recording approaches used by these two companies are different at this time and have created some short-term confusion in the industry. Accordingly, the Company's strategy is to view optically-assisted recording as a potentially valid solution at some point in time, but to assume that the hard drive technologies currently in use will serve the Company for the foreseeable future. However, if the Company's assumption proves to be wrong, the Company could be late in its integration of optically-assisted recording technology, which could have an adverse effect on the Company's financial condition or operating results.

Development and Production of Drives with MR Recording Heads. The majority of the Company's hard drive products currently utilize conventional thin film or metal-in-gap ("MIG") inductive head technologies. MR heads, which enable higher capacity per hard drive than conventional thin film or MIG inductive heads, have replaced thin film and MIG inductive heads as the leading recording head technology. Several of the Company's major competitors are substantially ahead of the Company in incorporating MR head technology into some of their current products and, with higher capacity drives using MR heads, some of the Company's competitors achieved time-to-market leadership with certain MR products. In September 1997, the Company commenced volume production of its first desktop drive product incorporating MR head technology, a 2.1 GB per platter drive, and with that introduction, the Company achieved time-to-market leadership at that capacity point. Additionally, the Company commenced volume production in December 1997 of the new low-profile 9.1 GB enterprise drive incorporating MR head technology. As with most new products, the Company anticipates that the new MR-based products may have lower initial manufacturing yields and higher initial component costs than some more mature products. Based on anticipated overall unit shipments, the Company expects to have MR heads in approximately 80% of products shipped by the end of the fourth quarter of 1998. This plan depends upon achieving the anticipated overall unit shipments and the continued success in MR head technology throughout the full production process, and no assurance can be given that these goals will be achieved. Failure of the Company to successfully execute the transition to MR head technology in a timely manner, to produce these products, and/or to qualify these products with the OEM customers in sufficient volume during 1998 could cause further erosion of the Company's market share and have an adverse effect on the Company's financial condition or operating results.

Fluctuating Product Demand. Demand for the Company's hard drive products depends on the demand for the computer systems manufactured by its customers and on storage upgrades to computer systems, which in turn are affected by computer system product cycles, end user demand for increased storage capacity and prevailing economic conditions. Although market research indicates total computer system unit shipments are expected to continue to grow for the next several years, demand may fluctuate significantly from period to period. Such fluctuations have in the past and may in the future result in deferral or cancellation of orders for the Company's products, which could have an adverse effect on the Company's financial condition or operating results.

The hard drive industry has also experienced seasonal fluctuations in demand. The Company has historically experienced relatively flat demand in the first quarter of the fiscal year as compared to the fourth quarter, while demand in the second quarter has historically been much higher than in the first quarter. However, the Company has not experienced this historical pattern during 1998. Additionally, product shipments tend to be greatest in the third month of each quarter. The inability of the Company to accurately match its product build plans to customer demand for any particular period could adversely affect the Company's operating results for that period.

Customer Concentration and Changing Customer Models. High volume customers for hard drives are concentrated among a small number of OEMs, distributors and retailers. Although the Company believes its relationships with key customers such as these are generally very good, the concentration of sales to a relatively small number of major customers represents a business risk that loss of one or more accounts could adversely affect the Company's financial condition or operating results. The Company's customers are generally not obligated to purchase any minimum volume and are generally able to terminate their relationship with the Company at will. If any such change in purchase volume or customer relationships resulted in decreased demand for the Company's drives, whether by loss of or delays in orders, the Company's financial condition or operating results could be adversely affected.

The hard drive industry is experiencing changes in its OEM customer ordering models. The trend among computer manufacturers using the "build-to-order" model is to utilize a "just-in-time" ("JIT") inventory management requirements model. As a result, the Company's customers are holding smaller inventories of components such as hard drives. This JIT ordering requires the Company to maintain a certain base stock of product in a location adjacent to its customers' manufacturing facilities. JIT ordering complicates the Company's inventory management strategies and makes it more difficult to match manufacturing plans with projected customer demand. The Company's failure to manage its inventory in response to JIT demands could have an adverse effect on its operating results.

Large OEMs are also considering or have implemented a "channel assembly" model in which the OEM ships a minimal computer system to the dealer or other assembler, and component suppliers such as hard drive manufacturers are requested to ship parts directly to the assembler for installation at its location. With this model, fragmentation of manufacturing facilities exposes the Company to some risk of inventory mismanagement by both the OEMs and the assemblers. The shift requires effective inventory management by the Company, and any increase in the number of "ship to locations" may increase freight costs and the number of accounts to be managed. Additionally, if the assemblers are not properly trained in manufacturing processes, it could also increase the number of product returns resulting from damage during assembly or improper installation. This model requires proper alignment between the OEM and the Company and requires the Company to retain more of its product in inventory. The Company is therefore exposed to increased risk of inventory obsolescence with the channel assembly model as well as the JIT model. The Company's OEM customer relationships have traditionally been strong, but a material adverse change in an OEM relationship could adversely affect demand for the Company's products, especially with the impact of these new models.

Dependence on Suppliers of Components. The Company is dependent on qualified suppliers for components, including recording heads, head stack assemblies, media and integrated circuits. A number of the components used by the Company are available from a single or limited number of outside suppliers. Some of these materials may periodically be in short supply, and the Company has, on occasion, experienced temporary delays or increased costs in obtaining these materials. As a result, the Company must allow for significant lead times when procuring certain materials and supplies. In addition, cancellation of orders for components due to cut-backs in production precipitated by market oversupply or transition to new products or technologies can result in payment of significant cancellation charges to suppliers. Because the Company is less vertically integrated than its competitors, an extended shortage of required materials and supplies or the failure of key suppliers to meet the Company's quality, yield or production requirements could affect the Company more severely than competitors.

Intellectual Property. The hard drive industry has been characterized by significant litigation relating to patent and other intellectual property rights. From time to time, the Company receives claims of alleged patent infringement or notice of patents from patent holders, which typically contain an offer to grant the Company a license. On June 10, 1994, Papst Licensing ("Papst") brought suit against the Company in the United States District Court for the Central District of California alleging infringement by the Company of five hard drive motor patents owned by Papst. The patents relate to disk drive motors that the Company purchases from motor vendors. On December 1, 1994, Papst dismissed its case without prejudice, but has notified the Company that it intends to reinstate the suit if the Company does not agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. Although the Company does not believe that the outcome of this matter will have a material adverse effect on its financial condition or operating results, adverse resolution of any intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products. In addition, the costs of defending such litigation may be substantial, regardless of the outcome.

The Company's success depends in significant part on the proprietary nature of its technology. Patents issued to the Company may not provide the Company with meaningful advantages and may be challenged. 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 non-patentable intellectual property, particularly some of its process technology, is an important factor in its success. The Company relies upon employee, consultant, and vendor non-disclosure agreements and a system of internal safeguards to protect its proprietary information. Despite these safeguards, to the extent that a competitor of the Company is able to reproduce or otherwise capitalize on the Company's technology, it may be difficult or impossible for the Company to obtain necessary intellectual property protection in the United States or other countries where such competitor conducts its operations. Moreover, the laws of foreign countries may not protect the Company's intellectual property to the same extent as do the laws of the United States.

Use of Estimates. The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities. Such estimates include, but are not limited to, accruals for warranty against product defects, price protection and stock rotation reserves on product sold to resellers, and reserves for excess, obsolete and slow moving inventories. The rapidly changing market conditions in the hard drive industry make it difficult to estimate such accruals and reserves, and actual results may differ significantly from the Company's estimates and assumptions, including those used in determining the special charges in the second quarter of 1998. Differences between actual results and such estimates and assumptions can result in adverse effects on the Company's financial condition or operating results.

Potential Impact of Changing Market Demands. The information services business community is currently debating the "thin client architecture" or network computer ("NC") model, which emphasizes central servers for data storage and reduces the need for local desktop storage. Although industry analysts expect these products to account for a small fraction of the personal computer market over the next several years, broader than expected adoption of the NC model would reduce demand for desktop storage products while increasing demand for enterprise storage products. Given the Company's current business concentration in desktop disk drives and its relatively recent entry into enterprise disk drives, if such a scenario occurred on an accelerated basis, it would place the Company at a disadvantage relative to competitors which have a stronger market position in enterprise products.

In addition, some of the large desktop PC system manufacturers have introduced lower cost, lower performance systems principally for the consumer marketplace. These systems have generally been priced below $1,000 per system and typically contain hard drives with lower capacity. The Company currently participates in this market only to a limited extent, and if this market continues to grow rapidly, the Company will need to develop appropriate lower-cost disk drive products for these systems to avoid losing market share.

Foreign Manufacturing Risks. Western Digital products are currently manufactured in Singapore and Malaysia. The Company is subject to certain risks associated with foreign manufacturing, including obtaining requisite United States and foreign governmental permits and approvals, currency exchange fluctuations, currency restrictions, political instability, transportation delays, labor problems, trade restrictions, import, export, exchange and tax controls and reallocations, loss or non-renewal of favorable tax treatment under agreements with foreign tax authorities and changes in tariff and freight rates.

Possible Price Volatility of Common Stock. The market price of the Company's common stock has been, and may continue to be, extremely volatile and may be significantly affected by factors such as actual or anticipated fluctuations in the Company's operating results, announcements of technological innovations, new products introduced by the Company or its competitors, periods of severe pricing pressures, developments with respect to patents or proprietary rights, conditions and trends in the hard drive industry, changes in financial estimates by securities analysts, general market conditions and other factors. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many high technology companies that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Company's common stock, and there can be no assurance that the market price of the common stock will not decline.

Future Capital Needs. The hard drive industry is capital intensive, and in order to remain competitive, the Company will need to maintain adequate financial resources for capital expenditures, working capital and research and development. If the Company decides to increase its capital expenditures further, or sooner than presently contemplated, or if results of operations do not meet the Company's expectations, the Company could require additional debt or equity financing, and such equity financing could be dilutive to the Company's existing shareholders. There can be no assurance that such additional funds will be available to the Company or available on favorable terms. The Company may also require additional capital for other purposes not presently contemplated. If the Company is unable to obtain sufficient capital, it could be required to curtail its capital equipment and research and development expenditures, which could adversely affect the Company's financial condition or operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Foreign Exchange Contracts. The Company manages the impact of foreign currency exchange rate changes on certain underlying assets, liabilities and anticipated cash flows for operating expenses denominated in foreign currencies by entering into short-term, forward exchange contracts. With this approach, the Company expects to minimize the impact of changing foreign exchange rates on the Company's operations. However, there can be no assurance that all foreign currency exposures will be adequately covered, and that the Company's financial condition or operating results will not be affected by changing foreign exchange rates.

Year 2000 Issue. Many existing software programs use only two digits to identify the year in the date field. If such programs are not corrected, date data concerning the Year 2000 could cause many computer applications to fail, lock-up or generate erroneous results. Virtually all companies will be affected by the Year 2000 issue. As storage devices, the Company's hard drives are transparent to Year 2000 requirements and can be deemed Year 2000 compliant when used in accordance with Company product documentation and provided that all hardware, firmware, middleware and software used in combination with the hard drive exchange accurate data therewith.

The Company has committed personnel and resources to resolve potential Year 2000 issues, both internally and externally (with respect to the Company's suppliers and customers). The Company has completed the process of identifying and assessing its mission-critical systems related to the Year 2000. Although the Company plans to address Year 2000 issues with respect to the Company's mission-critical internal systems in sufficient time prior to the century rollover, there can be no assurance that there will not be interruption of operations or other limitations of system functionality, or that the Company will not incur substantial costs to avoid such occurrences. Any failure to effectively monitor, implement or improve the Company's internal and external operational, financial, management and technical support systems could have a material adverse effect on the Company's financial condition or operating results.

Technology License and Component Supply Transaction with IBM. As described in "Recent Developments" section, the Company and IBM have entered into a letter of intent to form a broad-based technology licensing and component supply agreement in the desktop hard drive business. This letter of intent imposes no binding obligation on either party and there can be no assurance that the Company and IBM will agree upon definitive terms and conditions and execute a binding agreement.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Between December 12, 1997 and February 24, 1998, eight class action suits were filed against the Company and certain of its officers and directors. The plaintiffs in the actions purport to represent purchasers of the Company's common stock during various periods ranging from July 25, 1996 through December 2, 1997 (collectively, the "Class Periods"). The complaints allege that the Company issued false and misleading statements during the respective Class Periods concerning the outlook for the Company's operations and earnings and that the Company issued false and misleading financial statements in fiscal years 1996 and 1997 by improperly deferring the write-down of obsolete inventory. The complaints seek compensatory damages for the purported class members in an unspecified amount. On April 6, 1998, the court ordered the cases consolidated and designated the plaintiffs in the first case filed as the lead plaintiffs and the law firm representing such plaintiffs as lead counsel. The lead counsel filed an amended consolidated complaint on April 27, 1998. On May 11, 1998, the Company filed a motion to dismiss the amended consolidated complaint. The Company's directors & officers liability insurance carrier has been notified of these claims and has acknowledged its responsibility to defend, subject to a reservation of rights. Although there has been no discovery conducted in these cases to date, the Company believes that it has meritorious defenses to the claims and intends to vigorously defend itself. The Company does not believe that the outcome of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity. However, such litigation could result in substantial costs and a diversion of resources and management's attention.

The Company was sued by Amstrad plc ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleges that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of $186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The suit also seeks punitive damages. The Company filed a counterclaim for $3.0 million in actual damages in addition to exemplary damages in an unspecified amount. Substantial discovery in the case has been conducted. The Court has set a trial date of September 14, 1998. The Company believes that it has meritorious defenses to Amstrad's claims and intends to vigorously defend itself against the Amstrad claims and to press its claims against Amstrad in this action. Although the Company believes that the final disposition of this matter will not have an adverse effect on the Company's financial condition or operating results, if Amstrad were to prevail on its claims, a judgment for a material amount could be awarded against the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On February 18, 1998, the Company issued $1,297,200,000 principal amount at maturity of its Convertible Subordinated Debentures due 2018. The Debentures were sold for $344.07 per $1,000 principal amount at maturity (approximately $446.3 million in the aggregate) to Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co., and Smith Barney Inc. as Initial Purchasers, and the Initial Purchasers re-sold the Debentures to qualified institutional buyers and certain accredited investors for $354.71 per $1,000 principal amount at maturity (approximately $460.1 million in the aggregate including the Initial Purchasers' discount of approximately $13.8 million). These transactions were exempt from registration under the Securities Act pursuant to Rule 144A and Regulation D thereunder.

The Debentures are convertible into common stock of the Company at any time after 90 days following the latest date of original issuance thereof and prior to maturity at the option of the holder thereof, unless previously redeemed or otherwise purchased by the Company, at a rate (subject to adjustment in certain circumstances) of 14.935 shares per $1,000 principal amount at maturity of Debentures. The Debentures are also redeemable by the Company at its option at any time after February 18, 2003, and must be repurchased by the Company at the option of the holder on February 18, 2003, 2008 or 2013, or upon a Fundamental Change (as defined), for the issue price plus accrued original issue discount to the date of redemption or repurchase.

The net proceeds received by the Company from the sale of the Debentures will be used for general corporate purposes, including working capital.

The Debentures, as indebtedness of the Company, represent a claim on the Company's assets that is prior to the rights of holders of the Company's common stock. The indenture governing the Debentures requires that, subject to certain exceptions, if the Company pays any dividends on its common stock it must set aside an equivalent amount per share for delivery upon conversion of the Debentures or adjust the conversion rate of the Debentures to reflect the dividend.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
4.1	Purchase Agreement dated February 12, 1998, by and between the Company and the Initial Purchasers named therein. (1)
4.2	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A. (1)
4.3	Registration Rights Agreement, dated as of February 18, 1998, by and between the Company and the Initial Purchasers named therein. (1)
4.4	Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018. (1)
4.5	Form of Common Stock Certificate. (1)
10.38.1	First Amendment to Revolving Credit and Term Loan Agreement, dated as of February 13, 1998, among the Company, BankBoston, N.A. and other lending institutions named therein.*
27	Financial Data Schedule

* New exhibit filed with this Report.

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

(b) REPORTS ON FORM 8-K:

None

SIGNATURES

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

WESTERN DIGITAL CORPORATION

Registrant

/s/Duston Williams

Duston M. Williams
Senior Vice President
and Chief Financial Officer

Date: May 12, 1998

EXHIBIT INDEX

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EXHIBIT 10.38.1

FIRST AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

First Amendment dated as of February 13, 1998 to Revolving Credit and Term Loan Agreement (the "First Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinfter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks and BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent"). Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower and the Banks have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this First Amendment;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Amendment to Section 1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by deleting the definitions of "Subordinated Indenture," "Subordinated Notes", "Subordinated Purchase Agreement" and "Subordinated Registration Rights Agreement" in their entirety and restating such definitions as follows:

Subordinated Indenture. The Indenture dated on or about February 18, 1998 between the Borrower and the Indenture Trustee relating to the Subordinated Notes, which Indenture shall be in substantially the form and substance as Exhibit A attached hereto, with such changes and/or modifications thereto as may be approved in writing by the Agent.

Subordinated Notes. The Zero Coupon Convertible Subordinated Debentures due 2018 in the initial aggregate principal amount at maturity of $1,128,000,000 to be issued pursuant to the Subordinated Indenture, and which shall be in substantially the form and substance as Exhibit B attached hereto, with such changes and/or modifications thereto as may be approved in writing by the Agent.

Subordinated Purchase Agreement. The Purchase Agreement as such term is defined in the Subordinated Indenture, relating to the issuance and sale by the Borrower of the Subordinated Notes.

SUBORDINATED REGISTRATION RIGHTS AGREEMENT. The Registration Rights Agreement, as such term is defined in the Subordinated Indenture, relating to the issuance and sale by the Borrower of the Subordinated Notes.

Sec. 2. AMENDMENT TO SEC. 8 OF THE CREDIT AGREEMENT. Section 8 of the Credit Agreement is hereby amended by inserting the following immediately after the end of the text of Sec. 8.24:

8.25. MANDATORY REDEMPTIONS AND REPURCHASES. The Borrower has no obligations pursuant to any of the Subordinated Debt Documents to make any mandatory repurchases or redemptions of the Subordinated Notes prior to and until February 18, 2003 other than upon the occurrence of a Fundamental Change (as such term is defined in the Subordinated Indenture) and the exercise by the holders of the Subordinated Notes of resulting rights after such Fundamental Change to require the Borrower to repurchase all or any portion of the Subordinated Notes.

Sec. 3. AMENDMENT TO SEC. 10 OF THE CREDIT AGREEMENT. Section 10 of the Credit Agreement is hereby amended as follows:

(a) Section 10.1(i) of the Credit Agreement is hereby amended by deleting the text of Sec. 10.1(i) in its entirety and substituting in place thereof the words "the Indebtedness evidenced by the Subordinated Debt Documents";

(b) Section 10.2 of the Credit Agreement is hereby amended by (i) deleting the period which appears at the end of the text of Sec. 10.2(xi) and substituting in place thereof a semicolon; and (ii) inserting immediately after the text of Sec. 10.2(xi) the following:

(xii) liens in favor of the Indenture Trustee to the extent expressly provided in Section 7.07 of the Subordinated Indenture; and

(xiii) the transfer of property or assets of the Borrower to the extent expressly provided in the Subordinated Indenture for the sole purpose of making any payments (including any such transfers required upon conversion of Subordinated Debt) permitted or required to be made thereunder and not otherwise prohibited by the terms of the subordination provisions contained in the Subordinated Indenture.

(c) Section 10.3(e) of the Credit Agreement is hereby amended by deleting Sec. 10.3(e) in its entirety and restating it as follows:

(e) Investments consisting or required by the terms of the Subordinated Notes (and not otherwise prohibited by the terms of the subordination provisions contained in the Subordinated Indenture) and Investments with respect to Indebtedness permitted by Sec. 10.1(g) so long such entities remain Guarantors, and Investments with respect to Indebtedness permitted by Sec. 10.1(h) so long as such entities remain Subsidiaries of the Borrower;

(d) Section 10.4 of the Credit Agreement is hereby amended by inserting immediately after the words "Restricted Payments" which appear in Section 10.4 the words "other than payments of cash in lieu of fractional shares of Common Stock (as such term is defined in the Subordinated Indenture) in accordance with Article 11 of the Subordinated Indenture."

(e) Section 10.8 of the Credit Agreement is hereby amended deleting Section 10.8 in its entirety and restating it as follows:

> 10.8 Subordinated Debt. The Borrower will not, and will not permit any of its Subsidiaries to, amend, supplement or otherwise modify the terms of any of the Subordinated Debt or voluntarily prepay, redeem or repurchase for any consideration other than shares of the Borrower's capital stock any of the Subordinated Debt or send any notice of voluntary redemption, repayment or repurchase for any consideration other than shares of the Borrower's capital stock or defeasance with respect to any of the Subordinated Debt. Notwithstanding the foregoing, the Borrower may make payments in cash in lieu of fractional shares of Common Stock (as such term is defined in the Subordinated Indenture) in accordance with Article 11 of the Subordinated Indenture. In addition, the Borrower will not make any mandatory redemptions or repurchases of all or any portion of the Subordinated Debt except in accordance with the express terms of the Subordinated Notes as in effect on February 18, 1998.

Section 4. Amendment to Section 14 of the Credit Agreement. Section 14.1 of the Credit Agreement is hereby amended by deleting each of Section 14.1(p) and 14.1(q) of the Credit Agreement in their entirety and restating each such section as follows:

> (p) the holders of all or any part of the Subordinated Debt shall accelerate the maturity of all or any part of the Subordinated Debt;
>
> (q) a "Fundamental Change" (or any analogous term used therein) as such term is defined in the Subordinated Indenture or any similar agreement governing any other Subordinated Debt occurs unless the Borrower shall have satisfied its obligation to repurchase or redeem all Subordinated Notes required by the holder or holders thereof to be so redeemed or repurchased solely by issuance of shares of the Borrower's capital stock;

Section 5. Amendment to Section 26 of the Credit Agreement. Section 26 of the Credit Agreement is hereby amended by inserting immediately after the words "the definition of Majority Banks" which appears in Section 26 the words "or the definition of Supermajority Banks."

Section 6. Conditions to Effectiveness. This First Amendment shall not become effective until the Agent receives a counterpart of this First Amendment, executed by the Borrower, the Guarantor and the Majority Banks.

Section 7. Representations and Warranties. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower of this First Amendment and the performance by the Borrower of all of its agreements and obligations under the Credit Agreement as amended hereby are within the corporate authority of each the Borrower and has been duly authorized by all necessary corporate action on the part of the borrower.

Section 8. Ratification, Etc. Except as expressly amended herby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this First Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

Section 9. No Waiver. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

Section 10. Counterparts. This First Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

Section 11. Governing Law. THIS FIRST AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Title: Vice President, Treasurer

BANKBOSTON, N.A.

By:

Title:

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By:

Title:

BANKBOSTON, N.A.

By: [SIG]

Title: Vice President

RATIFICATION OF GUARANTY

The undersigned guarantor hereby acknowledges and consents to the foregoing First Amendment as of February 18, 1998, and agrees that the Guaranty dated as of January 28, 1998 from the undersigned (the "Guarantor") in favor of the Agent and each of the Banks remains in full force and effect, and the Guarantor confirms and ratifies all of its obligations thereunder.

By: [SIG]

Title: President

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH QUARTERLY REPORT ON FORM 10-Q FOR THE NINE-MONTH PERIOD ENDED MARCH 28, 1998.

1,000

9-MOS
JUN-27-1998
JUN-29-1997
MAR-28-1998
577,804
0
489,917
14,615
217,205
1,328,298
575,074
227,692
1,723,392
688,832
513,149
0
0
881
485,921
1,723,392
2,891,022
2,891,022
2,749,232
2,749,232
275,146
3,354
4,067
(129,289)
(1,791)
(127,498)
0
0
0
(127,498)
(1.46)
(1.46)