UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 28, 1997

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<br>(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | 95-2647125<br>(I.R.S. EMPLOYER IDENTIFICATION NO.) |
| 8105 IRVINE CENTER DRIVE<br>IRVINE, CALIFORNIA<br>(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | 92618<br>(ZIP CODE) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (714) 932-5000

REGISTRANT'S WEB SITE: HTTP://WWW.WDC.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 [X] NO [ ]

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. [X]

As of August 23, 1997, the aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant was $4.6 billion.

As of August 23, 1997, the number of outstanding shares of Common Stock, par value $.01 per share, of the Registrant was 87,172,541.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy Statement for the 1997 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 1997 fiscal year.

WESTERN DIGITAL CORPORATION

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FOR THE FISCAL YEAR ENDED JUNE 28, 1997

THE INFORMATION CONTAINED IN THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS. 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. OTHER STATEMENTS OF THE COMPANY'S PLANS AND OBJECTIVES MAY ALSO BE CONSIDERED TO BE FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLISH REVISED FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY TO ADVISE INTERESTED PARTIES OF CERTAIN RISKS AND OTHER FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS AND OPERATING RESULTS, 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.

The Company's fiscal year is a 52 or 53-week year ending on the Saturday nearest June 30. Accordingly, the 1995, 1996 and 1997 fiscal years ended on July 1, June 29, and June 28, respectively.

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

The Company's principal executive offices are located at 8105 Irvine Center Drive, Irvine, California 92618; its telephone number is (714) 932-5000 and its web site is http://www.wdc.com.

# PART I

## ITEM 1. BUSINESS

### GENERAL

Western Digital Corporation (the "Company" or "Western Digital") designs, develops, manufactures and markets hard drives for use in computer systems ranging from notebook and desktop personal computers ("PC") to high-performance workstations, LAN servers and multi-user ("enterprise") systems. The Company is one of the top three independent manufacturers of hard drives.

The Company's product lines include 3.5-inch form factor hard drives for desktop PC systems ("WD Caviar"), 3.5-inch form factor hard drives for enterprise systems ("WD Enterprise"), and 3.0-inch form factor hard drives for mobile PCs ("WD Portfolio"). The WD Caviar family of products offers storage capacities ranging from 1.2 gigabytes to 5.1 gigabytes ("GB"). These hard drives utilize the Enhanced Integrated Drive Electronics ("EIDE") interface.

The Company began shipping the WD Enterprise class of products in 1997. The WD Enterprise product line currently offers hard drives with storage capacities of 2.1 GB and 4.3 GB and the Company intends to begin shipments of a 9 GB WD Enterprise hard drive in 1998. These products use the 3.5-inch form factor and the Small Computer System Interface ("SCSI") required by the processing-intensive, multi-tasking workstation, LAN server and multi-user system marketplace.

In 1997, Western Digital also began shipping a new product designed for mobile PCs. The WD Portfolio product line is a low profile, 3.0-inch form factor hard drive offering capacities from 1 GB to 2.1 GB.

MARKETS

The global market for hard drive products is divided into three major markets: (1) desktop PC systems, (2) mobile PCs, and (3) workstation systems and server/multi-user systems. Each market has unique characteristics that affect hard drive requirements, but all of them require hard drive manufacturers to continually offer more storage capacity to meet the needs of increasingly sophisticated users. The Company expects that new operating systems, desktop publishing, video editing, database management, and the explosion of the Internet will continue to drive growth in demand for data storage capacity.

The Company believes that the computer industry, of which the hard drive industry is a part, is maturing. Overall computer industry growth rates are beginning to slow somewhat although the industry is still experiencing double digit year-over-year growth in both unit shipments and revenues.

Hard drives are sold as components in computer systems and as upgrade components to end-users. Accordingly, the hard drive market is closely aligned with the PC market but, because of sales in the end-user upgrade market, the hard drive market is currently growing faster than the PC market in general.

Desktop PC Market

The Company designs, develops, manufactures and markets hard drives to meet the storage needs of desktop PC systems. The desktop component of the worldwide personal computing market represented greater than 75% of all hard drives shipped by the industry in calendar 1996. Over 90% of Western Digital's hard drive unit shipments in 1997 were sold to this market. Desktop personal computers for entry level to experienced users are used in both commercial and consumer environments.

The WD Caviar family's model uses common platforms for various products with different capacities to serve the differing needs of the desktop PC market. 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. The platform strategy also enables non-retail customers to leverage their qualification efforts onto successive product models. The WD Caviar family's product strategy helped Western Digital capture the number two desktop supplier position in calendar year 1996.

Enterprise Market

The Company designs, develops, manufactures and markets hard drives to meet the demanding storage needs of enterprise systems. Workstations include high performance microcomputers, technical workstations, servers, and minicomputers. Enterprise systems typically require higher performance hard drives with a minimum of 2 GB of storage capacity. Data integrity is paramount in this environment. Performance of the hard drive is also important because the multi-user environment requires rapid access to data. Western Digital serves this component of the market with the WD Enterprise hard drives.

Mobile PC Market

The mobile PC market is characterized by desktop-type computing performance in a smaller "footprint" to allow portability of the system. The mobile PC market has different classes of products, such as laptop, notebook and sub-notebook computers, all of which have differing "footprints" to accommodate their respective system features. The nature of the smaller "footprint" requires a smaller hard drive that is rugged enough to sustain the shocks resulting from portability of the system. Most portable computers utilize a 2.5-inch form factor hard drive and, therefore, have less storage capacity than desktop PC systems. The WD Portfolio product line utilizes a 3.0-inch form factor and provides desktop-like capacities while maintaining the durability, power and weight characteristics of its competitors' current mobile product offerings.

The mobile hard drive market is unique in that it is dominated by two large suppliers, IBM and Toshiba, which supply to themselves and the market. It is also different from either the desktop or enterprise markets in that there are almost no sales to the distribution or retail channel. Approximately ninety-five percent of mobile hard drives are sold to original equipment manufacturers ("OEMs") or their subcontractors. These factors make a successful time-to-market strategy critical for success.

### Potential Change in Market

The information services business community is currently debating the "thin client architecture" or "Net PC" model, which emphasizes central servers for data storage and reduces the need for local desktop storage. The Company expects that widespread conversion to this model, if it occurs, would increase demand for enterprise storage products, which the Company recently began distributing, and reduce demand for desktop storage products, which have been the Company's strength. The WD Enterprise product line is the primary component of the Company's strategic plan to prepare for the possibility of widespread adoption of the thin client architecture.

## PRODUCTS

Revenues from hard drive products were $1.9, $2.8, and $4.2 billion for 1995, 1996 and 1997, respectively. Revenues from microcomputer products were $191.0 million and $70.1 million for 1995 and 1996, respectively. (The Company sold its microcomputer products businesses in 1996.)

### Technology and Product Development

Hard drives are used to record, store and retrieve digital data. Their performance attributes are currently better than floppy disks, optical disk drives and tape, and 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 revolutions per minute.

All of the Company's hard drive products employ similar technology consisting of one or more rigid disks attached to a spindle assembly which rotates the disks at a constant speed around a hub. The rate at which the disks spin affects the drive performance -- generally, the faster the disks spin the higher the performance. The disks, or media, are where the actual data is stored and retrieved. Each disk typically consists of a substrate of finely machined aluminum or glass on which is deposited a thin layer of magnetic material.

One read/write head is generally associated with each side of each disk and flies just above its surface. The heads are attached to arms that are linked together to form the head stack assembly. Guided by instructions from the internal 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. The hard drive communicates with the computer through its internal controller, which controls the drive and interfaces with the host computer. There are several industry standard interfaces which can be used, including SCSI (Small Computer System Interface), EIDE (Enhanced Integrated Drive Electronics), and FC-AL (Fibre Channel Arbitrated Loop). As drive performance improves, the hard drive will deliver information faster than these current interfaces can handle. Accordingly, the industry plans to transition to high speed serial interfaces such as 1394 to handle the higher speed drives. The Company is working to develop products that will support the new 1394 interface, which is anticipated to replace EIDE as the new industry standard for PCs.

Storage capacity of the hard drive is determined by the number of disks and the hard drive'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. The Company employs a range of advanced technologies to achieve high densities, including PRML (Partial Response Maximum Likelihood) read/write channels, advanced servo systems, and close contact heads.

Western Digital plans to continue to increase areal densities of its hard drive products to meet the growing storage demands created by more sophisticated applications and users. Head technology is one of the variables affecting areal density. The Company is in the process of introducing new products with magneto-resistive ("MR") head technology, which allows significantly higher storage capacities than thin film or metal-in-gap head technologies. Some of the Company's competitors introduced products with MR heads last year, but Western Digital has taken a deliberate, planned approach for its transition to MR heads, thereby allowing it to take advantage of the hard drive industry's MR technology learning curve. The Company's suppliers and customers have now had substantial experience with MR-based products, and Western Digital expects to benefit from that experience. MR is the current technology transition for heads, media and related components, similar to metal-in-gap and thin film in the past, and eventually, as technology evolves, MR heads are expected to be replaced by the next head technology.

For additional discussion of MR head technology transition, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Development and Production of Drives with MR Recording Heads.

### Product Offerings

The Company's three categories of hard drive products (WD Caviar, WD Portfolio, and WD Enterprise products) are designed to serve three distinct areas of the hard drive market. The WD Caviar family consists of 1.0" high, 3.5-inch form factor products with capacities ranging from 1.2 GB to 5.1 GB for the desktop personal computer market. The WD Caviar products feature CacheFlow, the Company's proprietary adaptive disk caching system, which enhances the drive's read/write performance as measured by the rate at which it can deliver information to or receive information from the computer. The WD Caviar products utilize the EIDE interface, providing high performance while retaining ease of use and overall low cost of connection.

Introduced in 1996, the WD Portfolio family consists of 10.5mm high, 3.0-inch form factor hard drives with capacities ranging from 1.0 GB to 2.1 GB for the mobile PC market. WD Portfolio products are designed to fit into the smaller cabinets of portable computers, yet feature most of the attributes of WD Caviar products.

The Company began shipping WD Enterprise products in 1997. The first two products offer storage capacities of 2.1 GB and 4.3 GB, respectively, are 1.0" high, use the 3.5-inch form factor, and are targeted at workstations, LAN servers and multi-user systems. The WD Enterprise products utilize the SCSI interface combined with a 7200 rpm spin rate to provide the high performance required to meet the storage needs of enterprise systems. The designs have minimized power consumption for enhanced reliability. WD Enterprise products leverage many of the successful WD Caviar product and process attributes.

## SALES AND DISTRIBUTION

The Company sells its products globally to OEMs, OEM subcontractors ("ODMs"), distributors, value-added resellers, dealers, system integrators and retailers. Sales to OEMs accounted for 73%, 68% and 72% of consolidated revenues in 1995, 1996, and 1997, respectively. Western Digital hard drives are either incorporated into computer systems for resale or installed into end user systems as upgrades.

The business models of computer manufacturers, which account for the majority of the Company's sales, are in the process of changing, and these changes will impact Western Digital's sales, inventory and distribution patterns. The forecast-driven, long-production-run logistics model, which most of the computer industry has used, exposes OEMs and others in the distribution chain to the risk of carrying excess or obsolete component inventories. The historical model limits the OEMs' flexibility to react to rapid technology changes and component pricing fluctuations. The Company is beginning to experience a new customer supply chain logistics model that combines "build-to-order" (OEM does not build until there is an order backlog) and "channel assembly" (OEM supplies kits to distributors or assembly houses who assemble the computers). Western Digital is adapting its logistics model to effectively align with this industry shift. Western Digital already operates within these models with two of its major OEM customers. These changes will require greater skill in managing finished goods inventory and may require more flexibility in manufacturing, both of which in turn will require even closer relationships between the Company and its OEM customers. For an additional discussion of the changes in customer models, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Customer Concentration and Changing Customer Models.

The Company maintains sales offices throughout North America, Eastern and Western Europe, Japan and Southeast Asia. Field application engineering is provided to strategic OEM 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 no-charge toll telephone support during business hours in the United States, prepaid telephone cards in Europe and via the Company's web site.

The Company's sales organization is structured so that each OEM customer is served by a sales team. Each sales team is responsible for providing timely feedback to engineering regarding the customer's new product requirements. This structure promotes early identification of and response to the customer's full range of product needs. Later, in the production stage, the team focus enables the Company to improve customer fulfillment and overall service. The Company's major OEM customers include Apple Computer, AST Research, Compaq Computer, Dell Computer, Digital Equipment Corporation, Fujitsu, Gateway 2000, Hewlett-Packard, IBM, Intel, Micron Technology, NEC and Siemens. During 1995 and 1996, sales to Gateway 2000 accounted for 11% of revenues. During 1997, sales to IBM accounted for 13% of revenues. For an additional discussion of customer concentration, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Customer Concentration and Changing Customer Models.

The Company also sells its products through its sales force to selected resellers, which include major distributors, mass merchandisers and value-added resellers. The Company's major distributor customers include Decision Support Systems, Frank and Walter, Ingram Micro, Loeffelhardt, Supercom, Synnex and Tech Data. Major mass merchandiser customers include Best Buy, Computer City, CompUSA, Egghead Software and Office Depot. In accordance with standard industry practice, the Company's agreements with its 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. These agreements may be terminated upon written notice by either party. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory.

The Company's international sales, which include sales to foreign subsidiaries of U.S. companies, represented 44%, 51%, and 47% of revenues for 1995, 1996 and 1997, 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.

For information concerning revenue recognition, sales by geographic region and significant customer information, see Notes 1 and 7, 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 resellers and OEMs are reimbursed for certain advertising expenditures. Western Digital has also invested 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. The Company recently launched a new global campaign emphasizing the Western Digital brand attributes of being accessible, secure, smart and empowering.

## COMPETITION

### General

The hard drive industry is a highly competitive high-technology commodity marketplace. Similar to general commodities, hard drives 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, 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 in a high-technology commodity business, it cannot differentiate its product based on attributes such as storage capacity; therefore, the Company differentiates itself by emphasizing rapid response with its OEM and distribution customers and brand equity with its end users. Rapid response requires accelerated design cycles, customer delivery and production flexibility which contribute to customer satisfaction. Brand equity is a relatively new area for the hard drive industry. However, as data storage has become strategically critical for all computer end users, the Company believes that trust in a manufacturer's reputation has become key in the selection of a component, particularly within such a rapidly changing technology environment.

The Company's principal competitors are Seagate Technology, Inc. ("Seagate"), Quantum Corporation ("Quantum"), Hyundai Electronics America (Maxtor Corporation), and large computer manufacturers such as IBM that manufacture hard drives for use in their own products and for sale to others. Additionally, several large foreign companies such as Samsung and Fujitsu have entered the data storage business. While the Company believes that its products and its marketing efforts will continue to be competitive, there can be no assurance that its competitors will not improve their position in the market through aggressive pricing, new product introduction or other means.

The Company also competes with other companies offering products based on alternative data storage technologies. Technological advances in optical or other technologies could result in the introduction of products with superior or equal performance and lower costs, which could adversely affect the Company's competitive position.

The competition in the information storage product business can be further discussed on the basis of product lines as follows:

### Desktop Storage Products

Western Digital's desktop products compete primarily with the product offerings of Seagate and Quantum, each of which has a market share of approximately 20% to 25%. The Company's market share in desktop storage is approximately 25%. Hyundai, IBM and Fujitsu are the other competitors of note. The Company was able to gain market share in the desktop market during the past two years because of higher volume product availability at desired capacity points, marketing missteps by the Company's competitors, and brand equity. However, the Company's rapid gain in desktop market share over the previous two years is not expected to continue.

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

### Enterprise Storage Products

The competitive landscape in the enterprise hard drive market is dominated by Seagate with a market share in excess of 50%. The Company entered this market in 1997 to compete with Seagate, Quantum, IBM and Fujitsu. Quantum is also a relatively recent entrant into this market. Because of the increase in the number of competitors, the Company expects that price competition in the enterprise market will increase. The Company expects to respond to the increased competition by applying the business principles of superior quality, rapid production and strong customer relations. Introduction of the first generation of WD Enterprise drives has been successful because of high product quality, competitive product performance, and the

Company's ability to leverage its customer and supplier relations from the desktop market; however, the Company's continued success in the high-capacity market is heavily dependent on the successful development, timely introduction and market acceptance of new products.

### Mobile Storage Products

IBM and Toshiba, who supply to themselves as mobile computer manufacturers as well as to other manufacturers, have a combined mobile hard drive market share of approximately 80%. Western Digital currently offers mobile hard drives with a maximum capacity of 2.1GB, which is less capacity than is being offered by its competitors in the marketplace. The Company is working to increase the capacity of its mobile hard drives. The Company believes that the WD Portfolio 3-inch form factor provides significant packaging benefits because of its low height and potentially significant capacity benefits because it has more surface area per disk than the 2.5-inch form factor. However, the Company has not yet been able to realize this higher capacity potential. Notebook manufacturers other than IBM and Toshiba(who may be reluctant to buy hard drives from their competitors) are key to the successful adoption of the 3-inch form factor. Long-term success of the Company's current mobile hard drive products depends on other industry hard drive suppliers producing 3-inch form factor hard drives. The Company anticipates that more OEMs will design the larger slot needed to accommodate the 3-inch form factor into their computers if these hard drives are available from multiple vendors.

For an additional discussion of competition, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Highly Competitive Industry.

## SERVICE AND WARRANTY

Western Digital warrants its newly manufactured desktop and mobile products against defects in materials and workmanship for a period of three years from the date of sale. The Company's enterprise storage products have similar warranties for up to five years from the date of sale. The Company's warranty obligation is generally limited to repair or replacement. The Company refurbishes or repairs its products at an in-house service facility located in Singapore and at a third-party return facility located in Germany. As a response to the large increase in theft of high technology products and in an effort to deter the sale of Western Digital products on the "'black market", the Company does not warrant product which is stolen.

## 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 totaled $130.8, $150.1 and $150.2 million in 1995, 1996 and 1997, respectively. Although total expenditures were level from 1996 to 1997, research and development expenditures in 1996 included $24.5 million for microcomputer products. The microcomputer businesses were sold in 1996. Accordingly, research and development expenditures for hard drive products increased by approximately $24.6 million from 1996 to 1997.

For a discussion of product development, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Rapid Technological Change and Product Development.

## MANUFACTURING

As a manufacturing company with a high-technology commodity product, Western Digital must manufacture significant volumes of high quality hard drives at low unit cost. The Company strives to maintain manufacturing flexibility, rapidly achieve high manufacturing yields, and acquire high-quality components in required volumes at competitive prices. The critical elements of Western Digital's hard drive production are high volume low cost assembly and reliability testing, and establishment and maintenance of key vendor relationships in order to create "virtual vertical integration."

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" 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 produces hard drives in its three plants, two in Singapore and one in Malaysia. These plants have complete responsibility for all hard drives in volume production, including manufacturing, purchasing, inventory management, assembly, testing, quality assurance and shipping of finished units. The Company purchases most of the standard mechanical components and micro controllers for its hard drives from external suppliers, although the Company has a media manufacturing facility in Northern California which supplies a portion of its media requirements. The Company's media manufacturing facility runs substrates, acquired from third party vendors, through various manufacturing processes of layering, coating and lubricating in order to achieve the proper degree of final surface smoothness. After conducting final quality assurance tests, the media plant delivers finished media to the Company's overseas manufacturing facilities.

The Company continually evaluates its manufacturing processes in an effort to increase productivity and decrease manufacturing costs. The Company believes that more automated manufacturing processes may be required in the future in order to be competitive in the hard drive industry and selectively 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, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Foreign Manufacturing Risks.

## MATERIALS AND SUPPLIES

The principal components currently used in the manufacture of the Company's hard drives are magnetic heads (thin film, metal-in-gap ("MIG") and MR) and related head stack assemblies, media, controllers, spindle motors and mechanical parts used in the head-disk assembly. The Company also uses standard semiconductor components such as logic, memory and microprocessor devices obtained from other manufacturers as well as proprietary semiconductor devices designed by and manufactured for the Company and a wide variety of other parts, including connectors, cables, and switches.

Unlike some of its competitors, except for a portion of its media requirements, the Company acquires all of the components for its products from third-party suppliers. Substantially all of the Company's thin film head requirements are purchased from Read-Rite, SAE and AMC Corporation. These same vendors plus IBM are expected to be the Company's primary suppliers of MR heads. The Company also uses MIG heads, which are supplied by multiple vendors. Media requirements not fulfilled internally are purchased through several outside vendors including Komag Inc., Trace Storage, Akashic, HMT Technology and Showa Denko. The Company has an agreement with SGS Thompson to purchase finished integrated circuits, which were previously manufactured internally.

For an additional discussion of component supplies, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Dependence on Suppliers of Components.

## BACKLOG

At August 15, 1997, the Company's backlog, consisting of orders scheduled for delivery within the next twelve months, was approximately $620 million, compared with a backlog at August 15, 1996 of approximately $410 million. 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's sales are made under contracts and purchase orders that, pursuant to industry practice, may be canceled with relatively short notice to the Company, subject to payment of certain costs, or modified by customers to provide for delivery at a later date. Also, certain of the Company's sales to OEMs 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.

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 nonpatentable 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.

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. It is the Company's policy to evaluate each claim and, if appropriate, enter into a licensing arrangement on commercially reasonable terms. However, there is no assurance that such licenses are presently obtainable, or if later determined to be required, could be obtained.

ENVIRONMENTAL REGULATION

The Company is subject to a variety of regulations in connection with its operations, and believes that it has obtained or is in the process of obtaining all necessary permits for its domestic operations. See Part I, Item 3, Legal Proceedings.

EMPLOYEES

As of July 26, 1997, the Company employed a total of 13,507 full-time employees worldwide. The Company employed 2,410 employees in the United States, of whom 1,244, 416 and 750 were engaged in engineering, sales and administration, and manufacturing, respectively. The Company employed 5,287 employees at its hard drive manufacturing facilities in Malaysia, 5,656 at its hard drive manufacturing facilities in Singapore, and 154 at its international sales offices.

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. In an effort to attract and retain such employees, the Company continues to offer 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

The Company's headquarters, located on leased property in Irvine, California (expiring in 2000), house management, research and development, administrative and sales personnel. The Company also leases facilities in San Jose, California, and Rochester, Minnesota for research and development activities. The

Company operates two hard drive manufacturing facilities in Singapore. One Singapore facility is leased and is used to produce desktop hard drives. The other Singapore facility is owned and is used to produce enterprise hard drives. Western Digital also owns a hard drive manufacturing facility in Kuala Lumpur, Malaysia which provides the Company with additional capacity to produce desktop hard drives. The Company's media processing facilities are located on leased property in Santa Clara, California. The leases referenced above expire at various times beginning in 1998 through 2006.

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.

ITEM 3. LEGAL PROCEEDINGS

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 1988 and 1989 were defective and caused damages to Amstrad of $186.0 million for out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for $3.0 million in actual damages plus exemplary damages in an unspecified amount.

The Company's errors and omissions insurance carrier has acknowledged its responsibility to defend the case and to afford coverage. The policy limits, however, are well below the amount of damages sought by Amstrad. 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 the final disposition of this matter will not have a material adverse effect on the Company's financial position, results of operations or liquidity, if Amstrad were to prevail on its claims, a judgment in a material amount could be awarded against the Company.

On June 10, 1994, Papst Licensing ("Papst") brought suit against the Company in the United States District Court for the Central District of California. The suit alleged infringement by Western Digital 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 recently 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. The Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity.

On May 9, 1997, the Bay Area Air Quality Management District ("District") filed suit against the Company in Santa Clara Superior Court. The complaint alleges that isopropyl alcohol dryers at the Company's Santa Clara media facility do not comply with the District's emission control requirements and the conditions of the permit issued by the District to the Company for the dryers. The complaint seeks damages of $300,000. The Company is in discussion with the District concerning the complaint and has proposed a resolution of the matter. The Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity.

The Company is also subject to other legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its 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 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of all the executive officers of the Company as of August 1997 are listed below, followed by a brief account of their business experience during the past five years. Executive officers are normally appointed 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 |
|---|---|---|
| Charles A. Haggerty | 56 | Chairman of the Board, President and Chief Executive Officer |
| Kathryn A. Braun | 46 | President and Chief Operating Officer, Personal Storage Division |
| Matthew H. Massengill | 36 | Senior Vice President and General Manager, Enterprise Storage Group |
| Marc H. Nussbaum | 41 | Senior Vice President, Engineering, Personal Storage Division |
| David W. Schafer | 45 | Senior Vice President, Worldwide Sales |
| Duston M. Williams | 39 | Senior Vice President and Chief Financial Officer |
| Michael A. Cornelius | 55 | Vice President, Law and Administration, and Secretary |
| Steven M. Slavin | 46 | Vice President, Taxes and Treasurer |
| Jack Van Berkel | 37 | Vice President, Human Resources |

Messrs. Haggerty, Massengill, Nussbaum, Schafer, Slavin and Williams and Ms. Braun 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. Cornelius joined the Company in January 1995. Prior to joining the Company, he served in various positions with U.S. affiliates of Nissan Motor Company, Inc. for 19 years. From 1990 to 1992, he served as Nissan North America's Vice President of Legal and Public Affairs. Immediately prior to joining the Company, he held the position of Vice President of Corporate Affairs for Nissan North America.

Mr. Van Berkel joined the Company in January 1995 as Director of Human Resources for the Personal Storage Division and was promoted to his current position in May 1997. Prior to joining the Company, he served as Vice President of Human Resources for Walker Interactive Systems for five years.

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"). The approximate number of holders of record of common stock of the Company as of August 20, 1997 was 3,160.

The Company has not paid any cash dividends on its common stock and does not intend to pay any cash dividends in the foreseeable future. The Company's line of credit agreement restricts the payment of cash dividends.

The high and low sales prices (retroactively adjusted for the two-for-one stock split effected as a stock dividend in June 1997) of the Company's common stock, as reported by the NYSE, for each quarter of 1996 and 1997 are as follows:

| | FIRST | SECOND | THIRD | FOURTH |
|---|---|---|---|---|
| 1996 | | | | |
| High | $11-1/16 | $ 9-7/16 | $10-11/16 | $ 14-1/2 |
| Low | 7-9/16 | 7-3/16 | 8-1/16 | 9-7/16 |
| 1997 | | | | |
| High | $20-5/8 | $ 31-11/16 | $38-5/8 | $ 37-1/8 |
| Low | 9-15/16 | 19-3/16 | 26-1/4 | 26-5/16 |

ITEM 6. SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS

| | YEARS ENDED | | | | |
|---|---|---|---|---|---|
| | JUNE 30, 1993 | JUNE 30, 1994 | JULY 1, 1995 | JUNE 29, 1996 | JUNE 28, 1997 |
| | (IN MILLIONS, EXCEPT PER SHARE AND EMPLOYEE DATA) | | | | |
| Revenues, net | $1,225.2 | $1,539.7 | $2,130.9 | $2,865.2 | $4,177.9 |
| Gross profit | 182.0 | 317.9 | 394.1 | 382.1 | 650.3 |
| Operating income (loss) | (10.0) | 91.9 | 133.0 | 77.5 | 301.6 |
| Net income (loss) | $ (25.1) | $ 73.1 | $ 123.3 | $ 96.9 | $ 267.6 |
| Earnings (loss) per share*: | | | | | |
| Primary | $ (.39) | $ .88 | $ 1.28 | $ 1.01 | $ 2.86 |
| Fully diluted | $ (.39) | $ .85 | $ 1.23 | $ 1.00 | $ 2.85 |
| Working capital | $ 111.5 | $ 261.7 | $ 360.5 | $ 280.2 | $ 364.2 |
| Total assets | $ 531.2 | $ 640.5 | $ 858.8 | $ 984.1 | $1,307.1 |
| Total long-term debt | $ 182.6 | $ 58.6 | $ -- | $ -- | $ -- |
| Shareholders' equity | $ 131.0 | $ 288.2 | $ 473.4 | $ 453.9 | $ 620.0 |
| Number of employees | 7,322 | 6,593 | 7,647 | 9,628 | 13,384 |

No cash dividends were paid for the years presented.

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* Reflects retroactive recognition of the two-for one stock split effected as a stock dividend in June 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Western Digital operates in an highly competitive industry which has experienced a great deal of growth, competitive consolidation and technological change over the past several years. This industry is characterized as a high-tech commodity business with short product life cycles, dependence upon highly skilled engineering and other personnel, significant expenditures for product development and recurring periods of under and over supply.

The Company has invested a significant amount during the past two years in the development of a new hard drive product line for the enterprise storage market. The Company began shipping these products in volume during 1997. The Company anticipates that the enterprise product line will be profitable in 1998.

The Company's strategy is to be the time-to-market and time-to-volume leader as well as a time-to-quality innovator. Successful implementation of a quality-driven strategy during the past four years has resulted in a significant increase in unit shipments of desktop hard drives with attendant improvements in factory utilization and manufacturing efficiency, lower component costs, overall reductions in the defective product rate and increased brand loyalty. The Company has achieved these quality improvements through design with its "platform" based architecture and through a virtual vertically integrated business model with key strategic suppliers. Virtual integration allows the Company to be more flexible in choosing when to incorporate technology advances into its products.

## RESULTS OF OPERATIONS

### Comparison of 1995, 1996 and 1997

In 1995, the Company reported net income of $123.3 million compared with net income of $96.9 million for 1996 and $267.6 million for 1997. Net income for 1996 included a one-time, pre-tax gain of $17.3 million on the sale of the Company's multimedia products business. The decrease in net income from 1995 to 1996 occurred because of a decline in gross profit margin percentage of approximately five percentage points and an increase in operating expenses as the Company invested in new storage-related product lines. The increase in net income in 1997 over 1996 resulted from a 46% increase in revenues, a two percentage point increase in gross margin percentage, and a two percentage point decline in operating expenses as a percentage of revenues. A five percentage point increase in the consolidated income tax rate from 1996 to 1997 and the one-time gain recorded in 1996 partially offset these improvements.

Sales of hard drive products were $1.9, $2.8 and $4.2 billion in 1995, 1996 and 1997, respectively. Beginning in 1997, 100% of the Company's revenues were generated from the sale of hard drive products. During 1996, unit shipments increased 50% which, combined with a modest decline in average selling prices ("ASPs") resulted in hard drive revenues increasing 44% over 1995. Although increased sales to OEMs during 1996 accounted for the majority of the increase in unit shipments, a year-over-year increase in reseller units was also a significant factor. During 1997, unit shipments increased 51% from 1996, but declining ASPs reduced the 1996 to 1997 hard drive revenue growth rate to 49%. The revenue increase in 1997 primarily resulted from increased business with OEMs and, to a lesser extent, incremental unit shipments to resellers. Also in 1997, the Company began shipping products from its enterprise storage product line. During the past few years, the Company has grown its hard drive unit shipments and revenues at a considerably higher rate than the industry average, but this extraordinary rate of growth is not expected to continue and the Company expects future growth in unit shipments and revenues to be closer to industry norms.

Gross profit margins were as follows:

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Hard drive products | 16.2% | 12.8% | 15.6% |
| Microcomputer products | 41.8% | 36.8% | --% |
| Overall | 18.5% | 13.3% | 15.6% |

The decrease in gross profit margin in 1996 was primarily due to three factors. First, in 1996 higher-capacity products were introduced at lower average selling prices as a result of competitive pricing pressures. Second, the Company shipped a broader mix of hard drives during 1996. This resulted in higher shipments of lower-capacity products at lower price points, which generally have smaller gross margins. Finally, fewer microcomputer products (which had higher average gross margin percentages) were sold during 1996 because of the sale of the MCP businesses.

The decline in microcomputer product gross margin in 1996 was generally attributable to the relationship between fixed costs and the lower revenue base experienced as the non-drive related products lines were divested in 1996.

The increase in gross profit margin for hard drive products in 1997 was primarily the result of a change in sales mix to a greater percentage of higher-capacity desktop storage products combined with initial shipments of enterprise storage products. The Company began shipping products from its enterprise storage product line in 1997. These products had a higher average gross margin percentage than the Company's desktop storage products. Also contributing to the improvement in gross profit margin for hard drive products were year-over-year reductions in the average cost of the Company's desktop storage products.

Research and development expense ("R&D") was $130.8 million, or 6.1% of revenues, $150.1 million, or 5.2% of revenues, and $150.2 million, or 3.6% of revenues in 1995, 1996 and 1997, respectively. The $19.3 million increase in R&D expenses in 1996 was primarily the result of higher expenditures to support the development of enterprise and mobile storage products, partially offset by lower expenditures for microcomputer products. R&D expense remained consistent from 1996 to 1997 as higher expenditures incurred to develop desktop, enterprise and mobile hard drive products were offset by the elimination of expenditures related to the MCP businesses which were sold in 1996. R&D expenses declined as a percentage of revenues primarily as a result of the higher revenue base in 1997 as compared to 1996 and 1995.

Selling, general and administrative expenses ("SG&A") were $130.3 million, or 6.1% of revenues, $154.5 million, or 5.4% of revenues and $198.5 million, or 4.8% of revenues, in 1995, 1996 and 1997, respectively. The increases in the absolute dollars of SG&A expenses incurred in 1997 as compared to 1996 and 1995 were primarily due to incremental selling, marketing and other related expenses in support of the higher revenue levels. The other major factors that contributed to the increases in SG&A expenses were higher expenditures for the Company's pay-for-performance and profit sharing plans in 1997 and higher royalty expense in 1996. The decline in SG&A expenses as a percentage of revenues in 1997 as compared to 1996 and 1995 was primarily due to the higher revenue base.

Net interest and other income was $12.0 million in 1995, $13.1 million in 1996 and $13.2 million in 1997. The improvement from 1995 to 1996 was the result of the elimination of the Company's outstanding debt in June 1995, partially offset by lower average cash and short-term investment balances.

The Company's effective tax rate of 15%, 10% and 15% recorded in 1995, 1996 and 1997, respectively, 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 (see Note 5 of Notes to Consolidated Financial Statements). The fluctuation in the tax rate reflects a change in earnings among the Company's subsidiaries operating in various tax jurisdictions.

## 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. The Company enters into short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and anticipated cash flows for operating expenses denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. A majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed twelve months. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transaction is consummated.

As of June 28, 1997, the Company had outstanding the following foreign currency forward contracts (in millions, except average contract rate):

| | JUNE 28, 1997 | | |
|---|---|---|---|
| | CONTRACT AMOUNT | WEIGHTED AVERAGE CONTRACT RATE | UNREALIZED LOSS* |
| | (U.S. DOLLAR EQUIVALENT AMOUNTS) | | |
| Foreign currency forward contracts: | | | |
| Singapore Dollar | $162.9 | 1.40 | $ (2.3) |
| Malaysian Ringgit | 90.3 | 2.52 | (.5) |
| Japanese Yen | 10.4 | 115.40 | (.1) |
| British Pound Sterling | 3.0 | 1.64 | -- |
| | $266.6 | | $ (2.9) |

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* The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transactions are consummated.

NEW ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). This statement is effective for both interim and annual periods ending after December 15, 1997, and replaces the presentation of "primary" earnings per share with "basic" earnings per share and the presentation of "fully diluted" earnings per share with "diluted" earnings per share. Earlier application is not permitted. When adopted, all previously reported earnings per share amounts must be restated based on the provisions of the new standard. Pro forma basic and diluted earnings per share calculated in accordance with SFAS No. 128 is provided below:

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 1995 | JUNE 29, 1996 | JUNE 28, 1997 |
| Basic earnings per share | $1.34 | $ 1.05 | $ 3.07 |
| Diluted earnings per share | $1.23 | $ 1.01 | $ 2.86 |

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 data as currently reported.

LIQUIDITY AND CAPITAL RESOURCES

At June 28, 1997, the Company had $208.3 million in cash and short-term investments as compared with $219.2 million at June 29, 1996. Net cash provided by operating activities was $254.2 million during 1997. Cash flows from earnings, depreciation and amortization, and an increase in current liabilities were partially offset by cash used to fund higher accounts receivable and inventory balances. Other significant uses of cash during 1997 were capital expenditures of $156.0 million, which were incurred primarily to support increased production of hard drives and related components, and the acquisition of 5.2 million shares of the Company's common stock in the open market for $144.6 million. Partially offsetting these uses of cash was $43.1 million

received in connection with stock option exercises (including tax benefit) and Employee Stock Purchase Plan ("ESPP") purchases. The Company anticipates that capital expenditures in 1998 will total approximately $250 million and will relate to increased hard drive and media capacity and normal replacement of existing assets. In addition, the Company may purchase up to an additional 10.0 million shares of its common stock under the current Board of Directors' authorization, which expires in March 1999.

The Company has an $150 million revolving credit agreement with certain financial institutions extending through April 2000. This facility is intended to meet short-term working capital requirements which may arise from time to time. The Company believes that its current cash balances combined with cash flow from operations and its revolving credit agreement will be sufficient to meet its working capital needs for the foreseeable future. However, the Company's ability to sustain its favorable working capital position is dependent upon a number of factors that are discussed below under the heading "Risk Factors Affecting the Company and/or the Hard Drive Industry."

## RISK FACTORS AFFECTING THE COMPANY AND/OR THE HARD DRIVE INDUSTRY

The Company's business is subject to a number of risks, trends and uncertainties, some of which are related to the hard drive industry in general and others related more specifically to Western Digital. As a result of the risks and uncertainties described below as well as other risks presented elsewhere in this report, there can be no assurance that the Company will continue to be as successful as it was in the past few years or maintain its current market position. Some of these factors have affected the Company's operating results in the past, and all of these factors could affect its future operating results. The Company does not expect that the percentage increases in revenues, operating income and net income during the past few years represent a consistent reliable trend that can be expected to continue in the future. The hard drive business remains challenging and cyclical.

### Rapid Technological Change and Product Development

The information storage industry is characterized by rapid technological developments, short product life cycles and competitive pressures, including price erosion. This business environment results in rapid erosion of gross margins on specific hard drive products. 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 availability of research and development funds to support the rapid technological change depends upon the Company's 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. 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, to qualify these new products with its customers, to successfully introduce these products to the market on a timely basis, and to commence volume production to meet customer demands. If not carefully planned and executed, the introduction of 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 smaller 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 introduction of advanced and cost effective products, could result in significantly lower revenue and gross margins.

Technological advances in magnetic, optical or other technologies, or the development of entirely new technologies, could result in the creation of competitive products which have superior performance to 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 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 for the industry. Accordingly, the Company's strategy is to view optically assisted recording as a 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 position, results of operations or liquidity.

Highly Competitive Industry

During the years preceding the merger between Seagate Technology, Inc. and Conner Peripherals, Inc. in 1996, the desktop hard drive industry consisted of many competitors of various sizes and financial resources. Competition during these years was based largely on price. Although price competition and price erosion were not as severe in 1997, the Company still expects price competition and price erosion will continue for the foreseeable future for various reasons. In general, the unit price for a given product in all of the Company's markets decreases over time as increases in industry supply and cost reductions occur and as technological advancements are achieved. Cost reductions are primarily achieved as volume efficiencies are realized, component cost reductions are achieved, experience is gained in manufacturing the product and design enhancements are made. Competitive pressures and customer expectations result in these cost improvements being passed along as reductions in selling prices. The rate of general price decline can be and has been accelerated when some competitors lower prices to absorb excess capacity, liquidate excess inventories, or attempt to gain market share. The competition and continuing price erosion could adversely affect the Company's results of operations in any given quarter, and such adverse affect often cannot be anticipated until late in the quarter.

Fluctuating Product Demand

Demand for the Company's hard drive products depends on the demand for the computer systems manufactured by its customers and storage upgrades to computer systems, which in turn are affected by computer system product cycles, end user demand for increased storage capacity, and prevailing economic conditions. Although market research indicates total computer system unit shipments will grow at an annual compounded rate of approximately 13% through fiscal year 2000, near term demand may experience significant fluctuations. Such fluctuations have in the past and may in the future result in deferral or cancellation of orders for Western Digital products, which could have a material adverse effect on the Company.

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. Additionally, product shipments tend to be greatest in the third month of each quarter, although this pattern may be affected by changes in customer requirements, which are discussed below. To the extent this trend continues, failure by the Company to adequately prepare itself for such fluctuations or to complete shipments at the end of each quarter could adversely affect the Company's operating results for that quarter.

Customer Concentration and Changing Customer Models

High purchase-volume customers for hard drives are concentrated within a small number of OEMs, distribution channels and system integrators. While Western Digital believes its relationships with key customers such as these are 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 operating results. Western Digital'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 resulted in decreased demand for the Company's drives, whether by loss of or delays in orders, the Company's operating results could be materially 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 meet more "just-in-time" ("JIT") customer requirements; therefore, Western Digital's customers are holding smaller inventories of components such as hard drives. This JIT ordering model 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 increasingly difficult to balance manufacturing plans with projected customer demand. The Company's failure to manage its inventory in response to JIT demands could have a material adverse effect on its financial position, results of operations or liquidity.

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 assembler, and component suppliers such as hard drive manufacturers are requested to ship parts directly to the dealer 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 assembly houses. 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 the 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 negative change in an OEM relationship could adversely affect demand for Western Digital products, especially with the impact of these new models.

### 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. The Company believes that magneto-resistive ("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 have incorporated MR head technology into some of their current products and, with higher capacity drives using MR heads, the Company's competitors have achieved time-to-market leadership. The Company is already shipping mobile products with MR head technology and expects to ship a desktop product with MR head technology that will achieve time-to-market areal density leadership early in 1998. As with most new products, the Company anticipates that the new MR products will have lower initial manufacturing yields and higher initial component costs than some more mature products. Failure of the Company to successfully manufacture and market products incorporating MR head technology in a timely manner and/or in sufficient volume during 1998 could cause erosion of the Company's market share and have a material adverse effect on the Company's business and financial position, results of operations or liquidity.

### 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. Because the Company is less vertically integrated than its competitors, an extended shortage of required materials and supplies could have a more severe effect on the Company's revenues and earnings as compared to its competition. The Company must allow for significant lead times when procuring certain materials and supplies. The Company has more than one available source for most of its required materials, but where there is only one source of supply, the Company has entered into close technical and manufacturing relationships, has access to more than one manufacturing location in most instances, and believes that a second source could be obtained over a period of time. However, no assurance can be given that the Company's results of operations would not be adversely affected until a new source could be secured.

Although the Company obtains headstack assemblies from several sources, the supply of these components at the desired technology levels is a critical issue for the Company as it plans to meet the anticipated demand for desktop storage products. The Company believes that the supply of headstack assemblies may continue to be a constraint over the next 12 months, and a continued shortage at the desired technology levels could adversely affect the Company's ability to meet anticipated increases in customer demand for its products.

### Foreign Manufacturing Risks

Western Digital products are currently manufactured in Singapore and Malaysia. Although the manufacturing is performed by the Company's subsidiaries, 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, and changes in tariff and freight rates.

### Volatility of Stock Price

The Company's stock price, like other high-technology companies' stock prices, is subject to wide fluctuations. The stock price volatility can be a response to actual or anticipated variations in operating results, announcements of new products or developments by the Company or its competitors, developments in relationships with customers or suppliers and other events or factors. Even a modest underperformance against the expectations of the investment community by the Company can lead to a significant decline in the market price of the Company's stock. Broad stock market fluctuations, which may be unrelated to the operating performance of the Company, may also adversely affect the market price of the Company's stock.

### Other Risk Factors

The Company's operating results have been and may in the future be subject to significant periodic fluctuations as a result of a number of other factors. These factors have included the timing of orders from and shipment of products to major customers, product mix, pricing, delays in product development and/or introduction to production, competing technologies, variations in product cost, component availability due to single or limited sources of supply, foreign exchange fluctuations, increased competition and general economics and industry fluctuations, both foreign and domestic. The Company's future operating results may also be adversely affected by an adverse judgment or settlement in the legal proceedings in which the Company is currently involved (see "Part I, Item 3. Legal Proceedings").

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

# 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 generally accepted auditing standards. 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 29, 1996 and June 28, 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended June 28, 1997, in conformity with generally accepted accounting principles. 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.

KPMG PEAT MARWICK LLP

Orange County, California
July 16, 1997

WESTERN DIGITAL CORPORATION

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

| | YEARS ENDED | | |
|---|---|---|---|
| | JULY 1, 1995 | JUNE 29, 1996 | JUNE 28, 1997 |
| Revenues, net | $ 2,130,867 | $ 2,865,219 | $ 4,177,857 |
| Costs and expenses: | | | |
| Cost of revenues | 1,736,761 | 2,483,155 | 3,527,574 |
| Research and development | 130,789 | 150,112 | 150,157 |
| Selling, general and administrative (Note 8) | 130,286 | 154,497 | 198,530 |
| Total costs and expenses | 1,997,836 | 2,787,764 | 3,876,261 |
| Operating income | 133,031 | 77,455 | 301,596 |
| Net interest and other income (Note 2) | 12,002 | 13,134 | 13,223 |
| Gain on sale of multimedia business (Note 8) | -- | 17,275 | -- |
| Income before income taxes | 145,033 | 107,864 | 314,819 |
| Provision for income taxes (Note 5) | 21,731 | 10,970 | 47,223 |
| Net income | $ 123,302 | $ 96,894 | $ 267,596 |
| Earnings per common and common equivalent share: | | | |
| Primary | $ 1.28 | $ 1.01 | $ 2.86 |
| Fully diluted | $ 1.23 | $ 1.00 | $ 2.85 |
| Common and common equivalent shares used in computing per share amounts: | | | |
| Primary | 96,396 | 96,248 | 93,521 |
| Fully diluted | 102,840 | 96,560 | 93,880 |

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

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

ASSETS

| | JUNE 29, 1996 | JUNE 28, 1997 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 182,565 | $ 208,276 |
| Short-term investments | 36,598 | -- |
| Accounts receivable, less allowance for doubtful accounts of $9,376 in 1996 and $11,706 in 1997 | 409,473 | 545,552 |
| Inventories (Note 2) | 142,622 | 224,474 |
| Prepaid expenses and other assets (Note 5) | 23,006 | 39,593 |
| Total current assets | 794,264 | 1,017,895 |
| Property and equipment at cost, net (Note 2) | 148,258 | 247,895 |
| Intangible and other assets, net | 41,621 | 41,332 |
| Total assets | $ 984,143 | $1,307,122 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 345,866 | $ 417,984 |
| Accrued compensation | 30,457 | 59,227 |
| Accrued expenses | 137,699 | 176,494 |
| Total current liabilities | 514,022 | 653,705 |
| Deferred income taxes (Note 5) | 16,229 | 33,430 |
| Commitments and contingent liabilities (Note 4) | | |
| Shareholders' equity (Note 6): | | |
| Preferred stock, $.01 par value; Authorized -- 5,000 shares; Outstanding -- None | | |
| Common stock, $.01 par value; Authorized -- 225,000 shares; Outstanding -- 101,332 shares in 1996 and 1997 | 1,013 | 1,013 |
| Additional paid-in capital | 353,826 | 356,654 |
| Retained earnings | 220,470 | 488,066 |
| Treasury stock-common shares at cost; 14,190 shares in 1996 and 15,436 shares in 1997 | (121,417) | (225,746) |
| Total shareholders' equity | 453,892 | 619,987 |
| Total liabilities and shareholders' equity | $ 984,143 | $1,307,122 |

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE YEARS ENDED JUNE 28, 1997
(IN THOUSANDS)

| | COMMON STOCK | | TREASURY STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|---|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | SHARES | AMOUNT | | | |
| BALANCE AT JUNE 30, 1994 | 89,790 | $ 898 | -- | $ -- | $ 287,067 | $ 274 | $ 288,239 |
| Exercise of stock options (Note 6) | 2,152 | 21 | -- | -- | 5,669 | -- | 5,690 |
| ESPP shares issued (Note 6) | 968 | 10 | -- | -- | 5,595 | -- | 5,605 |
| Common stock issued upon conversion of debentures (Note 3) | 8,054 | 80 | -- | -- | 57,310 | -- | 57,390 |
| Income tax benefit from stock options exercised (Note 5) | -- | -- | -- | -- | 4,022 | -- | 4,022 |
| Purchase of treasury stock | -- | -- | (1,610) | (10,822) | -- | -- | (10,822) |
| Net income | -- | -- | -- | -- | -- | 123,302 | 123,302 |
| BALANCE AT JULY 1, 1995 | 100,964 | 1,009 | (1,610) | (10,822) | 359,663 | 123,576 | 473,426 |
| Purchase of treasury stock | -- | -- | (15,440) | (132,114) | -- | -- | (132,114) |
| Exercise of stock options (Note 6) | 368 | 4 | 1,568 | 12,833 | (5,528) | -- | 7,309 |
| ESPP shares issued (Note 6) | -- | -- | 1,292 | 8,686 | (309) | -- | 8,377 |
| Net income | | -- | -- | -- | -- | 96,894 | 96,894 |
| BALANCE AT JUNE 29, 1996 | 101,332 | 1,013 | (14,190) | (121,417) | 353,826 | 220,470 | 453,892 |
| Purchase of treasury stock | -- | -- | (5,172) | (135,506) | (9,068) | -- | (144,574) |
| Exercise of stock options (Note 6) | -- | -- | 2,790 | 22,087 | (8,350) | -- | 13,737 |
| ESPP shares issued (Note 6) | -- | -- | 1,136 | 9,090 | 37 | -- | 9,127 |
| Income tax benefit from stock options exercised (Note 5) | -- | -- | -- | -- | 20,209 | -- | 20,209 |
| Net income | -- | -- | -- | -- | -- | 267,596 | 267,596 |
| BALANCE AT JUNE 28, 1997 | 101,332 | $1,013 | (15,436) | $(225,746) | $ 356,654 | $488,066 | $ 619,987 |

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | YEARS ENDED JULY 1, 1995 | YEARS ENDED JUNE 29, 1996 | YEARS ENDED JUNE 28, 1997 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $123,302 | $ 96,894 | $267,596 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 43,612 | 51,643 | 63,485 |
| Gain on sale of multimedia business | -- | (17,275) | -- |
| Changes in assets and liabilities, excluding the effects of business sales (Note 8): | | | |
| Accounts receivable | (102,329) | (107,532) | (136,079) |
| Inventories | (19,350) | (69,180) | (81,852) |
| Prepaid expenses and other assets | (6,746) | (5,478) | 2,184 |
| Accounts payable, accrued compensation and accrued expenses | 93,858 | 110,311 | 139,683 |
| Deferred income taxes | (2,072) | 417 | (1,570) |
| Other assets | (8,958) | (1,519) | 712 |
| Net cash provided by operating activities | 121,317 | 58,281 | 254,159 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures, net | (54,774) | (108,696) | (155,958) |
| Proceeds from sale of businesses (Note 8) | -- | 85,486 | -- |
| Purchases of short-term investments | (148,896) | (34,685) | -- |
| Sales and maturities of short-term investments | 58,719 | 88,264 | 36,598 |
| Increase in other assets | (6,287) | (7,188) | (7,587) |
| Net cash provided by (used for) investing activities | (151,238) | 23,181 | (126,947) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Exercise of stock options, including tax benefit | 9,712 | 7,309 | 33,946 |
| Proceeds from ESPP shares issued | 5,605 | 8,377 | 9,127 |
| Redemption of convertible debentures (Note 3) | (527) | -- | -- |
| Repurchase of common stock | (10,822) | (132,114) | (144,574) |
| Net cash provided by (used for) financing activities | 3,968 | (116,428) | (101,501) |
| Net increase (decrease) in cash and cash equivalents | (25,953) | (34,966) | 25,711 |
| Cash and cash equivalents at beginning of year | 243,484 | 217,531 | 182,565 |
| Cash and cash equivalents at end of year | $217,531 | $182,565 | $208,276 |

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Western Digital Corporation ("Western Digital" or the "Company") has prepared its financial statements in accordance with generally accepted accounting principles 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

Effective July 1, 1994, the Company changed its fiscal year end from June 30 to a 52 or 53-week year ending on the Saturday nearest June 30. Accordingly, the 1995, 1996 and 1997 fiscal years ended on July 1, June 29 and June 28, respectively. All general references to years relate to fiscal years unless otherwise noted.

### Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly 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. 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 and Short-Term Investments

The Company's cash equivalents represent highly liquid investments, primarily money market funds and commercial paper, with original maturities of three months or less. Short-term investments represent investments in U.S. Treasury Bills with original maturities beyond three months and less than twelve months and are considered held to maturity.

### 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 and short-term investment 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.

### 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.

### Depreciation and Amortization

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 for financial reporting purposes and on an accelerated basis for income tax purposes. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms. Goodwill and purchased technology, which are included in other assets, are capitalized at cost and amortized on a straight-line basis over their estimated lives of five to fifteen years.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In accordance with Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews identifiable intangibles, goodwill 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.

### Revenue Recognition

The Company recognizes revenue at time of shipment and records a reserve for price adjustments, warranty and estimated sales returns. In accordance with standard industry practice, the Company's agreements with its 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. These agreements may be terminated upon written notice by either party. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory.

### Advertising Expense

Advertising costs are expensed as incurred. Selling, general and administrative expenses of the Company include advertising costs of $4.4 million, $9.5 million and $16.3 million in 1995, 1996 and 1997, respectively.

### Income Taxes

The Company accounts for income taxes using the asset and liability method. 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 not certain it will 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 financial statements in the period of enactment.

### Two-For-One Stock Split

On May 2, 1997, the Company declared a two-for-one stock split, effected in the form of a stock dividend on June 3, 1997 to shareholders of record on May 20, 1997. All share and per share amounts included in the consolidated financial statements reflect retroactive recognition of the two-for-one stock split.

### Per Share Information

Primary earnings per share amounts are based upon the weighted average number of shares and dilutive common stock equivalents for each period presented. For 1995, fully diluted earnings per share also include the dilutive effects of shares assumed to be issued upon conversion of the Company's convertible subordinated debentures which were all converted or redeemed in 1995.

### Increase in Authorized Common Stock and Change in Par Value of Common Stock and Preferred Stock

On March 11, 1997, the Company's shareholders approved the amendment to the Company's Certificate of Incorporation to increase the Company's authorized common stock and to reduce the par value of the common stock and preferred stock from $.10 to $.01 per share. Par value information in the consolidated financial statements reflects retroactive recognition of the change in the par value.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-Based Compensation

Effective June 30, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 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 No. 123 permits, and to follow the pro forma net income, pro forma earnings per share, and stock-based compensation plan disclosure requirements set forth in SFAS No. 123. See Note 6 of Notes to Consolidated Financial Statements.

New Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). This statement is effective for both interim and annual periods ending after December 15, 1997, and replaces the presentation of "primary" earnings per share with "basic" earnings per share and the presentation of "fully diluted" earnings per share with "diluted" earnings per share. Earlier application is not permitted. When adopted, all previously reported earnings per share amounts must be restated based on the provisions of the new standard. Pro forma basic and diluted earnings per share calculated in accordance with SFAS No. 128 is provided below:

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 1995 | JUNE 29, 1996 | JUNE 28, 1997 |
| Basic earnings per share | $1.34 | $ 1.05 | $ 3.07 |
| Diluted earnings per share | $1.23 | $ 1.01 | $ 2.86 |

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 data as currently reported.

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 carrying amounts of all other financial instruments in the consolidated balance sheets approximate fair values.

Foreign Exchange Contracts

The Company enters into short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and anticipated cash flows for operating expenditures denominated in foreign currencies. These contracts are not entered into for trading purposes, have maturity dates that do not exceed twelve months, and are accounted for as hedges. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

transactions are consummated. Costs associated with entering into such contracts are typically amortized over the life of the instrument. At June 29, 1996 and June 28, 1997, the Company had outstanding $177.6 and $266.6 million, respectively, of forward exchange contracts with commercial banks. As of June 29, 1996 and June 28, 1997, the unrealized gains and losses on outstanding forward exchange contracts were not material. Realized gains and losses are primarily recorded in cost of revenues in the accompanying consolidated statements of income.

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. Gains or losses on terminated contracts and offsetting contracts are recognized in the results of operations in the periods in which the hedged transactions occur.

### Use of Estimates

Company management has made a number of estimates and assumptions relating to the reporting of 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.

## NOTE 2. SUPPLEMENTAL FINANCIAL STATEMENT DATA (IN THOUSANDS)

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Net Interest and Other Income | | | |
| Interest income | $12,976 | $ 13,134 | $ 13,223 |
| Other income | 3,056 | -- | -- |
| Interest expense | (4,030) | -- | -- |
| Net interest and other income | $12,002 | $ 13,134 | $ 13,223 |
| Cash paid for interest | $ 4,471 | $ -- | $ -- |
| Inventories | | | |
| Finished goods | | $ 72,239 | $ 137,762 |
| Work in process | | 31,781 | 56,352 |
| Raw materials and component parts | | 38,602 | 30,360 |
| | | $ 142,622 | $ 224,474 |
| Property and Equipment | | | |
| Land and buildings | | $ 34,165 | $ 53,080 |
| Machinery and equipment | | 199,614 | 285,986 |
| Furniture and fixtures | | 10,617 | 13,260 |
| Leasehold improvements | | 47,352 | 63,335 |
| | | 291,748 | 415,661 |
| Accumulated depreciation and amortization | | (143,490) | (167,766) |
| Net property and equipment | | $ 148,258 | $ 247,895 |

## NOTE 3. DEBT

### Line of Credit

In April 1996, the Company entered into an unsecured revolving credit agreement with certain financial institutions which provides for borrowings up to $150 million. Borrowings under the agreement bear interest at either the banks' base rate or the Federal Funds Effective Rate plus a margin. The agreement, which expires

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

in April 2000, is intended to meet short-term working capital requirements which may arise from time to time. The agreement requires the Company to maintain certain financial ratios and restricts payment of dividends. The Company was in compliance with the terms of this agreement as of June 28, 1997. No borrowings were made under this agreement during 1996 or 1997.

### Subordinated Debt

During 1995, $58.1 million of the Company's 9% convertible subordinated debentures, due 2014, were converted into 8.1 million shares of the Company's common stock. In connection with this conversion, the Company charged $.7 million of unamortized costs to shareholders' equity. The remaining $.5 million of the Company's debentures were redeemed for cash.

## NOTE 4. COMMITMENTS 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 2006. Rental expense under these leases, including month-to-month rentals, was $25.5, $27.2, and $32.2 million in 1995, 1996, and 1997, respectively.

Future minimum rental payments under non-cancelable operating leases as of June 28, 1997 are as follows (in thousands):

| | |
|---|---|
| 1998 | $ 30,982 |
| 1999 | 26,419 |
| 2000 | 19,752 |
| 2001 | 10,622 |
| 2002 | 5,844 |
| Thereafter | 12,319 |
| Total future minimum rental payments | $105,938 |

### Legal Proceedings

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 1988 and 1989 were defective and caused damages to Amstrad of $186.0 million for out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for $3.0 million in actual damages plus exemplary damages in an unspecified amount.

The Company's errors and omissions insurance carrier has acknowledged its responsibility to defend the case and to afford coverage. The policy limits, however, are well below the amount of damages sought by Amstrad. 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 the final disposition of this matter will not have a material adverse effect on the Company's financial position, results of operations or liquidity, if Amstrad were to prevail on its claims, a judgment in a material amount could be awarded against the Company.

The Company is also subject to other legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its financial position, results of operations or liquidity.

## NOTE 5. INCOME TAXES

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

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| United States | $ 26,421 | $(10,877) | $105,884 |
| International | 118,612 | 118,741 | 208,935 |
| Income before income taxes | $145,033 | $107,864 | $314,819 |

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

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Current | | | |
| United States | $ 3,321 | $ 400 | $29,153 |
| International | 15,941 | 10,262 | 9,964 |
| State | 1,353 | 310 | 8,106 |
| | 20,615 | 10,972 | 47,223 |
| Deferred, net | | | |
| United States | 1,867 | -- | -- |
| International | (751) | (2) | -- |
| | 1,116 | (2) | -- |
| Provision for income taxes | $21,731 | $10,970 | $47,223 |

The tax benefits associated with the exercise of non-qualified stock options, the disqualifying disposition of stock acquired with incentive stock options, and the disqualifying disposition of stock acquired under the employee stock purchase plan reduced taxes currently payable as shown above by $4.0 million, $0 and $20.2 million for 1995, 1996 and 1997, respectively. Such benefits are credited to additional paid-in capital when realized.

The total cash paid for income taxes was $4.9 million, $4.5 million and $19.2 million for the years ended July 1, 1995, June 29, 1996 and June 28, 1997, respectively.

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities at June 29, 1996 and June 28, 1997 are as follows (in thousands):

| | 1996 | 1997 |
|---|---|---|
| Deferred tax assets: | | |
| NOL carryforward | $ 36,574 | $ 11,079 |
| Business credit carryforward | 26,714 | 25,502 |
| Reserves and accrued expenses not currently deductible | 49,538 | 67,155 |
| All other | 6,160 | 8,858 |
| | 118,986 | 112,594 |
| Valuation allowance | (118,605) | (86,608) |
| Total deferred tax assets | $ 381 | $ 25,986 |
| Deferred tax liabilities: | | |
| Unremitted income of foreign subsidiaries | $ 16,229 | $ 40,640 |
| All other | 381 | 5 |
| Total deferred tax liabilities | $ 16,610 | $ 40,645 |

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SFAS 109 requires deferred taxes to be determined for each tax paying component of an enterprise within each tax jurisdiction. Certain of the deferred tax assets indicated above are attributable to tax jurisdictions where a history of earnings has not been established. The taxable earnings in these tax jurisdictions is subject to volatility. Therefore, the Company believes a valuation allowance is needed to reduce the total deferred tax asset to an amount that is more likely than not to be realized. Due to recent improvements of the earnings in the jurisdictions to which these certain deferred assets relate, the Company has reduced its valuation allowance by $32.0 million.

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

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| U.S. Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net | 0.2 | 0.2 | 1.7 |
| Tax rate differential on international income | (19.3) | (30.7) | (12.7) |
| Effect of valuation allowance | (5.5) | 3.8 | (10.0) |
| Other | 4.6 | 1.9 | 1.0 |
| Effective tax rate | 15.0% | 10.2% | 15.0% |

Certain income of selected subsidiaries is taxed at substantially lower income tax rates as compared with local statutory rates. The lower rates reduced income taxes and increased net earnings by $33.2 million ($.32 per share, fully diluted), $30.1 million ($.31 per share, fully diluted) and by $58.5 million ($.62 per share, fully diluted) in 1995, 1996 and 1997, respectively. These lower rates are in effect through 2004.

At June 28, 1997, the Company had federal net operating loss carryforwards and tax credits of $31.7 million and $21.0 million, respectively. The loss carryforward expires in fiscal year 2008, and the credit carryforwards expire in fiscal years 1998 through 2012.

Net undistributed earnings from international subsidiaries at June 28, 1997 were $460.7 million. The net undistributed earnings are intended to finance local operating requirements. Accordingly, an additional United States tax provision has not been made.

NOTE 6. SHAREHOLDERS' EQUITY

The following table summarizes all shares of common stock reserved for issuance at June 28, 1997 (in thousands):

| | NUMBER OF SHARES |
|---|---|
| Issuable in connection with: | |
| Exercise of stock options, including options available for grant | 17,596 |
| Employee stock purchase plan | 1,603 |
| | 19,199 |

Stock Option Plans

Western Digital's Employee Stock Option Plan ("Employee Plan") is administered by the Compensation Committee of the Board of Directors, 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 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 28, 1997, 2,915,631 options were exercisable and 7,204,154 options were available for grant. Participants in the

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Employee Plan may be permitted to utilize stock purchased previously as consideration to exercise options or to exercise on a cashless basis, pursuant to the terms of the Employee Plan.

In 1985, the Company adopted the Stock Option Plan for Non-Employee Directors ("Director Plan") and reserved 1.6 million shares for issuance thereunder. The Director Plan was restated and amended in 1995. The Director Plan provides for initial option grants to new directors of 30,000 shares per director and additional grants of 7,500 options 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. As of June 28, 1997, 103,125 options were exercisable and 805,464 options were available for grant. The following table summarizes activity under the Employee and Director Plans combined (in thousands, except per share amounts):

| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|
| OPTIONS OUTSTANDING AT JUNE 30, 1994 | 9,132 | $ 3.86 |
| Granted | 2,938 | 7.77 |
| Exercised, net of value of redeemed shares | (2,152) | 2.72 |
| Canceled or expired | (742) | 4.48 |
| OPTIONS OUTSTANDING AT JULY 1, 1995 | 9,176 | 5.33 |
| Granted | 3,904 | 9.30 |
| Exercised, net of value of redeemed shares | (1,936) | 4.00 |
| Canceled or expired | (1,802) | 7.32 |
| OPTIONS OUTSTANDING AT JUNE 29, 1996 | 9,342 | 6.90 |
| Granted | 3,630 | 17.26 |
| Exercised, net of value of redeemed shares | (2,790) | 5.11 |
| Canceled or expired | (596) | 9.80 |
| OPTIONS OUTSTANDING AT JUNE 28, 1997 | 9,586 | $11.20 |

The following tables summarize information about options outstanding and exercisable under the Employee and Director Plans combined at June 28, 1997 (in thousand, except per share amounts):

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OF SHARES | WEIGHTED AVERAGE CONTRACTUAL LIFE (IN YEARS) | WEIGHTED EXERCISE PRICE | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| $ 1.44 - $ 7.56 | 2,662 | 6.40 | $ 5.62 | 1,854 | $ 5.01 |
| 7.69 - 8.81 | 2,507 | 8.04 | 8.56 | 903 | 8.57 |
| 8.88 - 11.88 | 2,850 | 8.90 | 11.41 | 189 | 9.44 |
| 12.69 - 35.25 | 1,567 | 9.41 | 24.62 | 73 | 14.18 |
| Total | 9,586 | 8.06 | $11.20 | 3,019 | $ 6.59 |

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 carries one Right to Purchase Series "A" Junior Participating Preferred Stock ("the Right"). The Right enables the holder, under certain circumstances, to purchase common stock of Western Digital or of the 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. The Rights are redeemable by the Company at $.01 per Right and expire in 1999.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Employee Stock Purchase Plan

During 1994, the Company implemented an employee stock purchase plan ("ESPP") 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 5.0 million shares of common stock have been reserved for issuance under this plan. Approximately 968,000, 1,292,000 and 1,136,000 shares were issued under this plan during 1995, 1996 and 1997, respectively.

## Savings and Profit Sharing Plan

Effective July 1, 1991, the Company adopted an annual Savings and Profit Sharing Plan covering eligible domestic employees. The Company authorized 8%, 6.5% and 4.1% of defined pre-tax profits to be allocated to the participants in 1995, 1996 and 1997, respectively. Payments to participants of the Savings and Profit Sharing Plan were $11.3, $7.1, and $12.6 million in 1995, 1996 and 1997, respectively.

## Pro Forma Information

Pro forma information regarding net income and earnings per share is required by SFAS No. 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 and the ESPP, collectively called "options") granted subsequent to July 1, 1995, under the fair value method of that statement.

The fair value of options granted in 1996 and 1997 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 | |
|---|---|---|---|---|
| | 1996 | 1997 | 1996 | 1997 |
| Option life (in years) | 5.0 | 4.0 | 2.0 | 2.0 |
| Risk-free interest rate | 6.5 % | 6.0 % | 6.5 % | 6.0 % |
| Stock price volatility | .49 | .58 | .49 | .58 |
| Dividend yield | -- | -- | -- | -- |

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

| | 1996 | 1997 |
|---|---|---|
| Options granted under the Stock Option Plans | $ 4.90 | $ 9.10 |
| Shares granted under the ESPP Plan | $ 4.20 | $ 6.75 |

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 No. 123, the Company's net income and net earnings per share would have been reduced to the amounts indicated below:

| | YEAR ENDED | |
|---|---|---|
| | JUNE 29, 1996 | JUNE 28, 1997 |
| Pro forma net income (in thousands) | $ 92,870 | $ 254,831 |
| Pro forma net earnings per share: | | |
| Primary | $ .96 | $ 2.72 |
| Fully diluted | $ .96 | $ 2.71 |

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Pro forma net income and net earnings per share reflects only options granted in the years ended June 29, 1996 and June 28, 1997. Therefore, the full impact of calculating compensation expense for options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation expense is reflected over the options' vesting period and compensation expense for options granted before July 2, 1995 is not considered.

NOTE 7. BUSINESS SEGMENT AND INTERNATIONAL OPERATIONS

Western Digital currently operates in one industry segment -- the design, development, manufacture and marketing of hard drives for the computer marketplace. During 1995 and 1996, sales to Gateway 2000 accounted for 11% of the Company's revenues. During 1997, sales to IBM accounted for 13% of the Company's revenues.

The Company's operations outside the United States include manufacturing facilities in Singapore and Malaysia as well as sales offices throughout the world.

The following table summarizes operations by entities located within the indicated geographic areas for the past three years. United States revenues to unaffiliated customers include export sales to various countries in Eastern Europe and Asia of $399.2, $674.1, and $763.5 million in 1995, 1996, and 1997, respectively.

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of $49.6, $61.5, and $62.8 million in 1995, 1996, and 1997, respectively, have been excluded in determining operating income by geographic region.

| | UNITED STATES | EUROPE | ASIA | ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|
| | | | (IN MILLIONS) | | |
| Year ended July 1, 1995 | | | | | |
| Sales to unaffiliated customers | $1,596 | $ 485 | $ 50 | $ -- | $2,131 |
| Transfers between geographic areas | 139 | 57 | 1,216 | (1,412) | -- |
| Revenues, net | $1,735 | $ 542 | $1,266 | $ (1,412) | $2,131 |
| Operating income | $ 64 | $ 6 | $ 117 | $ (4) | $ 183 |
| Identifiable assets | $ 597 | $ 78 | $ 185 | $ (1) | $ 859 |
| Year ended June 29, 1996 | | | | | |
| Sales to unaffiliated customers | $2,084 | $ 735 | $ 46 | $ -- | $2,865 |
| Transfers between geographic areas | 869 | 96 | 2,540 | (3,505) | -- |
| Revenues, net | $2,953 | $ 831 | $2,586 | $ (3,505) | $2,865 |
| Operating income | $ 21 | $ 9 | $ 113 | $ (4) | $ 139 |
| Identifiable assets | $ 569 | $ 143 | $ 276 | $ (4) | $ 984 |
| Year ended June 28, 1997 | | | | | |
| Sales to unaffiliated customers | $2,980 | $1,107 | $ 91 | $ -- | $4,178 |
| Transfers between geographic areas | 1,340 | 167 | 3,646 | (5,153) | -- |
| Revenues, net | $4,320 | $1,274 | $3,737 | $ (5,153) | $4,178 |
| Operating income | $ 158 | $ 15 | $ 200 | $ (8) | $ 365 |
| Identifiable assets | $ 733 | $ 186 | $ 404 | $ (16) | $1,307 |

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. SALE OF BUSINESSES

Sale of Multimedia Business

In October 1995, the Company sold its multimedia business to Philips Semiconductors, Inc. ("Philips") for $51.9 million cash, resulting in a one-time, pre-tax gain of $17.3 million. Through this transaction, Philips acquired specific intellectual properties and assumed certain liabilities directly related to the multimedia business.

Sale of High Speed Fiber-Optic Communication Links Business

In March 1996, the Company sold its high speed fiber-optic communication links business to Vixel Corporation for $1.2 million cash as well as other non-cash consideration. This transaction was not material to the Company's financial position or results of operations.

Sale of Input/Output Products Business

During April 1996, the Company disposed of its input/output products business, which represented the final element of its microcomputer products group. The transaction included the sale of related assets and resulted in a restructuring of the Company's other support organizations. The restructuring resulted in a personnel reduction of 102 people, not including employees that were hired by the purchaser, Adaptec, Inc. The net result of the asset sale and related restructuring charges is included in selling, general and administrative expenses and was not material to the Company's 1996 results of operations. The consideration received and related costs associated with the sale of the input/output products business are as follows (in millions):

| | |
|---|---|
| Sales price | $ 32.4 |
| Assets sold or written off: | |
| Inventory, net | (18.0) |
| Property and equipment | (2.5) |
| Prepaid expenses | (.5) |
| Total assets sold or written off | (21.0) |
| Accruals for severance, facilities, contractual commitments and other miscellaneous items | (11.4) |
| | $ -- |

As of June 29, 1996, $8.7 million of the accruals for severance, facilities, contractual commitments and other miscellaneous items remained. Substantially all of these accruals were utilized in 1997 to settle obligations resulting from the sale and related restructuring.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | FIRST | SECOND | THIRD | FOURTH |
|---|---|---|---|---|
| | (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | |
| 1996 | | | | |
| Revenues, net | $558,149 | $ 757,992 | $ 728,362 | $ 820,716 |
| Gross profit | 80,792 | 103,379 | 93,324 | 104,569 |
| Operating income | 6,165 | 21,175 | 19,014 | 31,101 |
| Net income | 8,327 | 36,393 | 19,438 | 32,736 |
| Primary earnings per share | .08 | .38 | .21 | .36 |
| Fully diluted earnings per share | $ .08 | $ .37 | $ .21 | $ .36 |
| 1997 | | | | |
| Revenues, net | $883,115 | $1,118,647 | $1,096,212 | $1,079,883 |
| Gross profit | 112,889 | 163,389 | 184,855 | 189,150 |
| Operating income | 35,769 | 71,835 | 94,062 | 99,930 |
| Net income | 32,878 | 64,229 | 82,595 | 87,894 |
| Primary earnings per share | .36 | .68 | .88 | .95 |
| Fully diluted earnings per share | $ .35 | $ .68 | $ .88 | $ .95 |

WESTERN DIGITAL CORPORATION

SCHEDULE II -- CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
THREE YEARS ENDED JUNE 28, 1997
(IN THOUSANDS)

| | ALLOWANCE FOR DOUBTFUL ACCOUNTS |
|---|---|
| Balance at June 30, 1994 | $10,825 |
| Charges to operations | 250 |
| Deductions | (1,682) |
| Other | (84) |
| Balance at July 1, 1995 | 9,309 |
| Charges to operations | 1,279 |
| Deductions | (1,212) |
| Other | -- |
| Balance at June 29, 1996 | 9,376 |
| Charges to operations | 7,116 |
| Deductions | (4,786) |
| Other | -- |
| Balance at June 28, 1997 | $11,706 |

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 1997 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 28, 1997.

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 1997 Annual Meeting of Shareholders under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Stock Performance Graph," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 28, 1997.

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 1997 Annual Meeting of Shareholders under the caption "Security Ownership of Beneficial Owners," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 28, 1997.

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 1997 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 28, 1997.

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 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.

(3) EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
|---|---|---|
| 3.2.2 | By-laws of the Company, as amended March 20, 1997(14)................. | |
| 3.3 | Certificate of Agreement of Merger(2).................................. | |
| 3.4.1 | Certificate of Amendment and Restatement of Certificate of Incorporation dated March 27, 1997(14)................................ | |
| 4.1 | Rights Agreement between the Company and First Interstate Bank, Ltd., as Rights Agent, dated as of December 1, 1988 (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 12, 1988)............................................................ | |
| 4.2 | Amendment No. 1 to Rights Agreement by and between the Company and First Interstate Bank, Ltd. dated as of August 10, 1990 (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 14, 1990)............................................................ | |
| 4.2.1 | Amendment No. 2 to Rights Agreement dated as of January 19, 1997, by and between Western Digital Corporation and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997)................ | |
| 4.3 | Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit A of Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 12, 1988)............................................................ | |
| 10.1.1 | Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 14, 1996(12)**........................... | |
| 10.1.2 | Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on March 20, 1997* **................................ | |
| 10.3.1 | Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 14, 1996(12)**.................................... | |
| 10.4 | Receivables Contribution and Sale Agreements, dated as of January 7, 1994 by and between the Company, as seller, and Western Digital Capital Corporation, as buyer(5)............................................ | |
| 10.5 | Receivables Purchase Agreement, dated as of January 7, 1994, by and among Western Digital Capital Corporation, as seller, the Company, as servicer, the Financial Institutions listed therein, as bank purchasers and J.P. Morgan Delaware, as administrative agent(5).................. | |
| 10.6 | First Amendment to Receivables Purchase Agreement, dated March 23, 1994, by and between Western Digital Corporation, as seller and the Financial Institutions listed therein as bank purchasers and administrative agents(5)............................................ | |
| 10.7 | Assignment Agreement, dated as of March 23, 1994, by and between J. P. Morgan Delaware as Bank Purchaser and Assignor and the Bank of California, N.A. and the Long-term Credit Bank of Japan, LTD., Los Angeles Agency, as Assignees(5)........................................................ | |
| 10.8 | Asset Purchase Agreement dated December 16, 1993 by and between Motorola, Inc. and Western Digital regarding the sale and purchase of Western Digital's wafer fabrication facilities and certain related assets(4)........................................................ | |

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
| --- | --- | --- |
| 10.10.1 | Western Digital Corporation Deferred Compensation Plan, Amended and Restated as of January 9, 1997 (14)**.................................. | |
| 10.11 | The Western Digital Corporation Executive Bonus Plan(6)**.............. | |
| 10.12 | The Extended Severance Plan of the Registrant(6)**..................... | |
| 10.12.1 | Amendment No. 1 to the Company's Extended Severance Plan (11)**........ | |
| 10.13 | Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993 (incorporated by reference to Exhibit 10.17.1 to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994)...................................... | |
| 10.16.1 | Western Digital Long-Term Retention Plan, as amended July 10, 1997* **............................................................ | |
| 10.17 | Subleases between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(1)................... | |
| 10.18 | Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(1).................... | |
| 10.21.1 | The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(14)**.................................. | |
| 10.22 | Office Building Lease between The Irvine Company and the Company dated as of January 13, 1988 (incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Company's Annual Report to Form 10-K as filed on Form 8 with the Securities and Exchange Commission on November 18, 1988)(8)............................................................ | |
| 10.30 | The Company's Savings and Profit Sharing Plan(9)**..................... | |
| 10.31 | First Amendment to the Company's Savings and Profit Sharing Plan(9)**............................................................ | |
| 10.32 | Second Amendment to the Company's Savings and Profit Sharing Plan(10)**........................................................... | |
| 10.32.1 | Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(12)**........................................................... | |
| 10.32.2 | Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(14)**........................................................... | |
| 10.33 | The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of July 10, 1997* **............................ | |
| 10.34 | Fiscal Year 1998 Western Digital Management Incentive Plan* **......... | |
| 10.35 | Revolving Credit Agreement, dated as of April 24, 1996, among Western Digital Corporation and Nationsbank of Texas, N.A., the First National Bank of Boston and the other Financial Institutions listed therein(10)........................................................... | |
| 10.36 | First Amendment to the Revolving Credit Agreement, dated as of June 27, 1996, among Western Digital Corporation and Nationsbank of Texas, N.A., the First National Bank of Boston and the other Financial Institutions listed therein(10).................................................. | |
| 10.37 | Amended and Restated Revolving Credit Agreement, dated as of May 5, 1997, among Western Digital Corporation and Nationsbank of Texas, N.A., BankBoston, N.A. and the other Financial Institutions listed therein* | |
| 11 | Computation of Per Share Earnings..................................... | |
| 21 | Subsidiaries of the Company........................................... | |

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
|---|---|---|
| 23 | Consent of Independent Auditors....................................... | |
| 27 | Financial Data Schedule................................................ | |
| 99.1 | Press Release Regarding Judgment against Seagate Technology, Inc. in favor of Amstrad plc by the English Court(14).......................... | |

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* 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 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.

(2) Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 33-54968) as filed with the Securities and Exchange Commission on January 26, 1993.

(3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 33-51725) as filed with the Securities and Exchange Commission on December 28, 1993.

(4) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 5, 1994.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1994.

(6) 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.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 16, 1995.

(8) Subject to confidentiality order dated November 21, 1988.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 1995.

(10) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 16, 1996.

(11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange commission on November 11, 1996.

(12) 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.

(13) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997.

(14) 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.

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1997.

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: DUSTON M. WILLIAMS

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Duston M. Williams
Senior Vice President
and Chief Financial Officer

Dated: September 12, 1997

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 12, 1997.

| SIGNATURE | TITLE |
|---|---|
| CHARLES A. HAGGERTY<br>Charles A. Haggerty | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) |
| DUSTON M. WILLIAMS<br>Duston M. Williams | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) |
| JAMES A. ABRAHAMSON<br>James A. Abrahamson | Director |
| PETER D. BEHRENDT<br>Peter D. Behrendt | Director |
| I. M. BOOTH<br>I. M. Booth | Director |
| ANDRE R. HORN<br>Andre R. Horn | Director |
| ANNE O. KRUEGER<br>Anne O. Krueger | Director |
| THOMAS E. PARDUN<br>Thomas E. Pardun | Director |

EXHIBIT INDEX

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| 10.13 | Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993 (incorporated by reference to Exhibit 10.17.1 to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994)..................................... | |
| 10.16.1 | Western Digital Long-Term Retention Plan, as amended July 10, 1997* **.......................................................... | |
| 10.17 | Subleases between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(1).................. | |
| 10.18 | Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(1)................... | |
| 10.21.1 | The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(14)**................................ | |
| 10.22 | Office Building Lease between The Irvine Company and the Company dated as of January 13, 1988 (incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Company's Annual Report to Form 10-K as filed on Form 8 with the Securities and Exchange Commission on November 18, 1988)(8).......................................................... | |
| 10.30 | The Company's Savings and Profit Sharing Plan(9)**.................... | |
| 10.31 | First Amendment to the Company's Savings and Profit Sharing Plan(9)**......................................................... | |
| 10.32 | Second Amendment to the Company's Savings and Profit Sharing Plan(10)**........................................................ | |
| 10.32.1 | Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(12)**........................................................ | |
| 10.32.2 | Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(14)**........................................................ | |
| 10.33 | The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of July 10, 1997* **........................... | |
| 10.34 | Fiscal Year 1998 Western Digital Management Incentive Plan* **......... | |
| 10.35 | Revolving Credit Agreement, dated as of April 24, 1996, among Western Digital Corporation and Nationsbank of Texas, N.A., the First National Bank of Boston and the other Financial Institutions listed therein(10)....................................................... | |
| 10.36 | First Amendment to the Revolving Credit Agreement, dated as of June 27, 1996, among Western Digital Corporation and Nationsbank of Texas, N.A., the First National Bank of Boston and the other Financial Institutions listed therein(10)................................................. | |
| 10.37 | Amended and Restated Revolving Credit Agreement, dated as of May 5, 1997, among Western Digital Corporation and Nationsbank of Texas, N.A., BankBoston, N.A. and the other Financial Institutions listed therein* | |
| 11 | Computation of Per Share Earnings.................................... | |
| 21 | Subsidiaries of the Company.......................................... | |

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
|---|---|---|
| 23 | Consent of Independent Auditors....................................... | |
| 27 | Financial Data Schedule................................................ | |
| 99.1 | Press Release Regarding Judgment against Seagate Technology, Inc. in favor of Amstrad plc by the English Court(14).......................... | |

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* 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 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.

(2) Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 33-54968) as filed with the Securities and Exchange Commission on January 26, 1993.

(3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 33-51725) as filed with the Securities and Exchange Commission on December 28, 1993.

(4) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 5, 1994.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1994.

(6) 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.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 16, 1995.

(8) Subject to confidentiality order dated November 21, 1988.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 1995.

(10) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 16, 1996.

(11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange commission on November 11, 1996.

(12) 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.

(13) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997.

(14) 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.

EXHIBIT 10.1.2

# WESTERN DIGITAL CORPORATION
# AMENDED AND RESTATED
# EMPLOYEE STOCK OPTION PLAN

1. Purpose. The purpose of this Western Digital Corporation Employee Stock Option Plan (the "Plan") is to further the growth and development of Western Digital Corporation (the "Company") and its subsidiaries by providing, through ownership of stock of the Company, an incentive to officers and other key employees who are in a position to contribute materially to the prosperity of the Company, to increase such persons' interest in the Company's welfare, to encourage them to continue their services to the Company or its subsidiaries, and to attract individuals of outstanding ability to enter the employment of the Company or its subsidiaries.

2. Incentive and Non-Qualified Stock Options. Two types of options (referred to herein as "options" without distinction between such two types) may be granted under the Plan: options intended to qualify as incentive stock options ("Incentive Stock Options") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); and other options not specifically authorized or qualified for favorable income tax treatment by the Code ("Non-Qualified Stock Options").

3. Administration.

3.1 Administration by Board. Subject to Section 3.2, the Plan shall be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board shall have authority to construe and interpret the Plan, to promulgate, amend, and rescind rules and regulations relating to its administration, from time to time to select from among the eligible employees (as determined pursuant to Section 4) of the Company and its subsidiaries those employees to whom options will be granted, to determine the timing and manner of the grant of the options, to determine the exercise price, the number of shares covered by and all of the terms of the options, to determine the duration and purpose of leaves of absence which may be granted to optionees without constituting termination of their employment for purposes of the Plan, and to make all of the determinations necessary or advisable for administration of the Plan. The interpretation and construction by the Board of any provision of the Plan, or of any grant or agreement issued and executed under the Plan, shall be final and binding upon all parties. No member of the Board shall be liable for any action or determination undertaken or made in good faith with respect to the Plan or any agreement executed pursuant to the Plan.

3.2 Administration by Committee. The Board may, in its sole discretion, delegate any or all of its administrative duties to a committee appointed by the Board (the "Committee") consisting of three Board members, each of whom, during such time as one or more persons eligible to receive options under the Plan is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") shall be disinterested within the meaning of Rule 16b-3 under the Exchange Act (or any successor rule, "Rule 16b-3"), provided, however, that the Board may from time to time increase the size of the Committee, and add additional members to, or remove members from, the Committee. The Committee shall act pursuant to a majority vote, or the written consent of a majority of its members, and minutes shall be kept of all of its meetings and copies thereof shall be provided to the Board. Subject to the provisions of the Plan and the directions of the Board, the Committee may establish and follow such rules and regulations for the conduct of its business as it may deem advisable. No member of the Committee shall be liable for any action or determination undertaken or made in good faith with respect to the Plan or any agreement executed pursuant to the Plan. The Board or the Committee, as the case may be, is sometimes referred to herein as the "Administrator."

4. Eligibility. Any employee (including any officer who is an employee) of the Company or any of its subsidiaries who does not own stock possessing more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations shall be eligible to receive a grant or grants of such options under the Plan; provided, however, that notwithstanding the foregoing, any employee of the Company who owns stock possessing more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations shall be eligible to receive a grant or grants of such options under the Plan if at the time such options are granted the option exercise price therefor is at least 110% of the Fair Market Value (as defined below) of the shares subject to the option and such option by its terms

is not exercisable after the expiration of five years from the date such option is granted. An employee may receive more than one option under the Plan. Notwithstanding the foregoing, no person who is a director of the Company shall be eligible to receive an option under the Plan unless the granting of such option shall be effected in such a manner as not to impair the Plan's qualification under Rule 16b-3.

5. Shares Subject to Options. The stock available for issuance upon exercise of stock options granted under the Plan shall be shares of the Company's authorized but unissued, or reacquired, Common Stock. The aggregate number of shares that may be issued after September 5, 1985, pursuant to exercise of options granted under the Plan shall not exceed 15,450,000 shares of Common Stock (subject to adjustment as provided herein). In the event that any outstanding option under the Plan for any reason expires or is terminated, the shares of Common Stock allocable to the unexercised portion of the option shall not count against the share limit set forth herein and shall again be available for issuance upon exercise of stock options granted under the Plan as if no option had been granted with respect to such shares.

6. Terms and Conditions of Options.

6.1 Grants of Options. Subject to the express provisions of the Plan, the Administrator shall from time to time in its discretion select those individuals to whom options shall be granted, and shall determine the terms of such options (which need not be identical) and the number of shares of Common Stock for which each may be exercised. Notwithstanding anything to the contrary herein, the number of shares of Common Stock with respect to which an option or options may be granted to any optionee in any one taxable year of the Company shall not exceed 400,000, subject to adjustment as provided herein (the "Maximum Annual Employee Grant"). Each option shall be subject to the terms and conditions of the Plan and such other terms and conditions established by the Administrator as are not inconsistent with the purpose and provisions of the Plan.

6.2 Agreements or Confirming Memos. Options granted under the Plan may but need not be evidenced by agreements (which need not be identical) in such form and containing such provisions consistent with the Plan as the Administrator shall from time to time approve. Options not documented by written agreement shall be memorialized by a written confirming memorandum stating the material terms of the option and provided to the option recipient. Each agreement or confirming memorandum shall specify whether the subject option is an Incentive Stock Option or a Non-Qualified Stock Option.

6.3 Optionee's Employment. Each optionee shall agree to remain in the employ of, and to render services to, the Company or its subsidiaries for a period of one year from the date the option is granted, but neither the Company nor any of its subsidiaries shall be obligated to continue to employ the optionee for any period.

6.4 Option Exercise Price. The purchase price for the shares subject to any option shall be determined by the Administrator but shall not be less than 100% of the Fair Market Value of the shares of Common Stock of the Company on the date the option is granted. For purposes of the Plan, the "Fair Market Value" of any share of Common Stock of the Company at any date shall be (a) if the Common Stock is listed on an established stock exchange or exchanges, the last reported sale price per share 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, at the closing reported bid price on such date on such exchange, or (b) if the Common Stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the Common Stock in the over-the-counter market as quoted on the Nasdaq National Market on such date, or (c) if the Common Stock is not then listed on an exchange or quoted on the Nasdaq National Market, an amount determined in good faith by the Administrator.

6.5 Medium and Time of Payment. The purchase price for any shares purchased pursuant to exercise of an option granted under the Plan shall be paid in full upon exercise of the option in cash or such other consideration as the Administrator may deem acceptable, including without limitation securities of the Company (delivered by or on behalf of the person exercising the option or retained by the Company from the stock otherwise issuable upon exercise and valued at Fair Market Value as of the exercise date), provided, however, that the Administrator may, in the exercise of its discretion, 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. Shares of Common Stock transferred to the Company upon exercise of an option shall not increase the number of shares available for issuance upon exercise of options granted under the Plan. Notwithstanding the foregoing, the Company may extend and maintain, or arrange for the extension and maintenance of, credit to any optionee to finance the optionee's purchase of shares pursuant to exercise of any option, on such terms as may be approved by the Administrator, subject to applicable regulations of the Federal Reserve Board and any other laws or regulations in effect at the time such credit is extended.

6.6 Option Period and Vesting. Subject to Section 6.14, options granted under the Plan shall vest and may be exercised as determined by the Administrator, except that no option may vest and become exercisable at any time prior to six months from the date the option is granted. Exercise of options after termination of the optionee's employment shall be subject to Sections 6.13 and 6.14. Each option granted hereunder and all rights or obligations under such option shall expire on such date as shall be determined by the Administrator, but not later than ten years after the date the option is granted, or five years after the date of grant in the case of an option recipient who at the time of grant owns more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations, and shall be subject to earlier termination as herein provided.

6.7 Exercise of Options. To the extent that an optionee has the right to exercise an option, the option may be exercised from time to time by written notice to the Company stating the number of shares being purchased and accompanied by payment in full of the purchase price for such shares, except that in no event shall the Company be required to issue fractional shares upon the exercise of an option, and the Administrator may, in its discretion, require that any exercise of an option be for at least 100 shares or, if less, the total number of shares for which the option is then exercisable. Any certificate(s) for outstanding securities of the Company used to pay the purchase price shall be accompanied by stock power(s) duly endorsed in blank by the registered holder of the certificate(s). In the event the certificate(s) tendered by the optionee in such payment cover more shares than are required for such payment, the certificate(s) shall also be accompanied by instructions from the optionee to the Company's transfer agent with respect to disposition of the balance of the securities covered thereby. Notwithstanding any other provision of this Plan, the Administrator may impose such conditions upon the exercise of options (including, without limitation, conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements, including without limitation Rule 16b-3, other relevant securities laws and rules, and any applicable section of or rule under the Code. Whenever shares of stock are to be issued upon exercise of an option granted under the Plan or subsequently transferred, the Administrator shall have the right to require the optionee or transferor to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The Administrator may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of securities of the Company or by withholding a portion of the stock otherwise issuable upon exercise of an option.

6.8 Nonassignability. No option granted under the Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, or (ii) subject to the final sentence of this Section 6.8, upon dissolution of marriage pursuant to a property settlement or domestic relations order, or (iii) 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. During the lifetime of an optionee, an option granted to him or her shall be exercisable only by the optionee (or the optionee's permitted transferee) or his or her guardian or legal representative. Notwithstanding the foregoing, Incentive Stock Options may not be assigned or transferred in violation of Section 422(b)(5) of the Code (or any successor provision) or the Treasury Regulations thereunder, and nothing herein is intended to allow such assignment or transfer."

6.9 Limit on Incentive Stock Options. Subject to Section 12.1, the aggregate Fair Market Value (determined as of the time the option is granted) of the stock for which Incentive Stock Options granted to any one employee under all stock option plans of the Company and its parent and subsidiary corporations first become exercisable during any calendar year after December 31, 1986 shall not exceed $100,000.

6.10 Restriction on Issuance of Shares. The issuance of options and shares shall be subject to compliance with all of the applicable requirements of law with respect to the issuance and sale of securities, including, without limitation, any required qualification under the California Corporate Securities Law of 1968, as amended.

6.11 Investment Representation. Any optionee may be required, as a condition of issuance of shares covered by his or her option, to represent that the shares to be acquired pursuant to exercise of the option will be acquired for investment and without a view to distribution thereof; and in such case, the Company may place a legend on the certificate evidencing the shares reflecting the fact that they were acquired for investment and cannot be sold or transferred unless registered under the Securities Act of 1933, as amended, or unless counsel for the Company is satisfied that the circumstances of the proposed transfer do not require such registration, and in addition, the Company may issue stop transfer instructions to the transfer agent of the Company's securities restricting the transfer of such shares.

6.12 Rights as a Shareholder or Employee. An optionee or transferee of an option shall have no rights as a shareholder of the Company with respect to any shares covered by any option until (i) the Company has received all amounts payable in connection with the exercise of the option, including the exercise price and any amounts required by the Company to satisfy tax withholding requirements, and (ii) a share certificate for such shares has been issued. No adjustment shall be made for dividends (ordinary or extraordinary, whether cash, securities, or other property) or distributions or other rights for which the record date is prior to the date such share certificate is issued, except as provided in Section 6.15. Nothing in the Plan or in any grant or option agreement shall confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries or interfere in any way with any right of the Company or any subsidiary to terminate the optionee's employment at any time.

6.13 Termination of Employment, Disability, or Death. In general, subject to Section 6.14, options shall be exercisable by an optionee (or his or her permitted successor in interest) following such optionee's termination of employment only to the extent that such options had become exercisable on or prior to the date of such termination. In the event an optionee ceases to be an employee of the Company and its subsidiaries for any reason (other than cause) while still living, any option or unexercised portion thereof granted to the optionee may, to the extent such option was exercisable by the optionee on or prior to the date he or she ceased to be an employee (or is accelerated pursuant to Section 6.14 to a date within three months of termination of employment), be exercised by the optionee within three months of the date on which he or she ceased to be an employee, but in any event not later than the date of expiration of the option. In the event of the death or disability (as defined in Section 105(d)(4) of the Code) of the optionee while he or she is an employee of the Company or any of its subsidiaries or within not more than three months of the date on which he or she ceased to be an employee for any reason other than cause, any option or unexercised portion thereof granted to the optionee may, to the extent such option was exercisable by the optionee on or prior to the date of death or disability (or is accelerated pursuant to Section 6.14 to a date within the period during which such option may be exercised as set forth below), be exercised by the optionee or, if the optionee is then deceased or incapacitated, by the optionee's personal representatives, heirs, or legatees at any time prior to the later of (i) one year from the date on which the optionee ceased to be an employee or (ii) the latest date the option could have been exercised by the optionee if not disabled or dead, but in any event, not later than the date of expiration of the option. Notwithstanding the foregoing, however, if an optionee's employment with the Company and its subsidiaries is terminated for cause, as determined by the Administrator in its sole discretion, all options held by such optionee shall expire on the date of termination of employment and thereafter shall not be exercisable in whole or in part.

6.14 Modification, Extension, and Renewal of Options; Alteration of Vesting and Exercise Periods. Subject to the terms and conditions and within the specific limitations of the Plan, the Administrator may modify, extend, or renew outstanding options granted under the Plan, accept the surrender of outstanding options (to the extent not theretofore exercised), and authorize the granting of new options in substitution therefor (to the extent not theretofore exercised) except that no such modification, extension or renewal shall result in a reduction in the exercise price of such option. Without limitation of the foregoing and notwithstanding anything in this Plan to the contrary, the Administrator may at any time and from time to time in its discretion (i) designate shorter or longer periods than specified herein or in any particular option grant or agreement following the termination of an optionee's employment with the Company or any of its subsidiaries or the optionee's death or disability during which the optionee may exercise options, provided, however, that any shorter periods determined by the Administrator shall be effective only if determined at the time of the grant of the affected option or if such shorter period is agreed to in writing by the optionee, and any longer periods may not extend beyond the original termination date of the affected option; (ii) subject to the six-month minimum vesting period described in Section 6.6, accelerate vesting of an option in whole or part by increasing the number of shares purchasable at any particular time, provided that no such acceleration shall increase the total number of shares for which the option may be exercised; and (iii) extend the period after death or disability or

termination of employment during which vesting of all or any portion of any options that had not become exercisable on or prior to the date thereof may occur. Notwithstanding the foregoing, no option shall be modified in such a manner as to impair any rights of the optionee under the option, or to cause an Incentive Stock Option to cease to qualify as such, without the consent of the optionee.

6.15 Recapitalization or Reorganization of the Company. Except as otherwise provided herein, appropriate and proportionate adjustments shall be made in the number and class of shares subject to the Plan, the Maximum Annual Employee Grant, the option rights granted under the Plan, and the exercise price of such option rights, in the event of a stock dividend (but only on Common Stock), stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, separation, or like change in the capital structure of the Company affecting the Common Stock of the Company. In the event of a liquidation of the Company, or a merger, reorganization, or consolidation of the Company with any other corporation in which the Company is not the surviving corporation or the Company becomes a wholly-owned subsidiary of another corporation, any unexercised options theretofore granted under the Plan shall be deemed canceled unless the surviving corporation in any such merger, reorganization, or consolidation elects to assume the options under the Plan or to issue substitute options in place thereof; provided, however, that, notwithstanding the foregoing, if such options would otherwise be canceled in accordance with the foregoing, the optionee shall have the right, exercisable during a ten-day period ending on the fifth day prior to such liquidation, merger, reorganization, or consolidation, to exercise the optionee's option in whole or in part without regard to any installment exercise provisions in the optionee's option agreement. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Administrator, the determination of which in that respect shall be final, binding, and conclusive, provided that an Incentive Stock Option shall not without the consent of the optionee be adjusted in a manner that causes the option to fail to continue to qualify as an Incentive Stock Option.

7. Termination or Amendment of Plan. The Board or the Committee may at any time or from time to time suspend, terminate or amend the Plan; provided that, without approval of the shareholders of the Company, there shall be, except as specifically permitted by the Plan, no increase in the total number of shares issuable upon exercise of options granted under the Plan, no change in the class of persons eligible to receive options granted under the Plan, and no extension of the latest date upon which options may be granted under the Plan; and provided further that, without the consent of the optionee, no amendment may adversely affect any then outstanding option or any unexercised portion thereof without the consent of the holder of such option.

8. Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee, the members of the Board or the Committee administering the Plan shall be indemnified by the Company against reasonable expenses, including attorney's fees, actually and necessarily incurred in connection with the defense of any action, suit, or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any action, suit, or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit, or proceeding that such member is liable for negligence or misconduct in the performance of his or her duties, provided that within 60 days after institution of any such action, suit, or proceeding, the member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

9. 1978 Non-Qualified Stock Option Plan. The Plan as set forth herein constitutes an amendment and restatement of the Company's 1978 Non-Qualified Stock Option Plan which was adopted in 1978. The Administrator may, in its discretion, authorize the conversion, to the fullest extent permitted by law, of Non-Qualified Stock Options granted under the 1978 Non-Qualified Stock Option Plan prior to such amendment to Incentive Stock Options under this Plan, as so amended. Any such options converted to Incentive Stock Options shall be treated as Incentive Stock Options for all purposes under the Plan; provided, however, that none of the terms or conditions of any of such options, including, but not limited to, the exercise price, the term of the option, and the time(s) within which the option may be exercised, shall be altered or amended by reason of such conversion.

10. Options Granted Prior to Amendment and Restatement. The Plan, as amended and restated from time to time, shall, in the discretion of the Administrator, apply to and govern options granted under the Plan prior to the date of any such amendment or restatement, subject to the consent of any holder of an option who would be disadvantaged by application to such option of the Plan as amended and restated after the grant of such option.

11. Term of Plan. Unless sooner terminated by the Board or the Committee in its sole discretion, the Plan will expire on November 10, 2004 (the "Termination Date"). Options may be granted under the Plan until midnight on the Termination Date, whereupon the Plan shall terminate. No options may be granted during any suspension of the Plan or after its termination. 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.

12. Miscellaneous.

12.1 Plan Provisions Regarding Incentive Stock Options. Options originally granted as Incentive Stock Options but that subsequently become Non-Qualified Stock Options need not satisfy any requirements of the Plan applicable to Incentive Stock Options.

12.2 Other Compensation Plans. The adoption of this Plan shall not affect any other stock option, incentive, or compensation plans in effect for the Company or any of its subsidiaries, and the Plan shall not preclude the Company or any of its subsidiaries from establishing any other forms of incentive compensation for employees, directors, or advisors of the Company or any of its subsidiaries.

# # #

As amended (Section 5, 6.4, 6.14) and restated 11/14/96
Amended 3/20/97: (Section 6.8)

EXHIBIT 10.16.1

# AMENDED AND RESTATED
# WESTERN DIGITAL CORPORATION
# LONG-TERM RETENTION PLAN

This Plan was adopted by the Company in July 1995 and amended and restated in July 1997.

## 1. PURPOSE.

The purpose of the Western Digital Corporation Long-Term Retention Plan (the "PLAN") is to provide additional incentive compensation to a select group of employees who are considered critical to the management and successful operation of Western Digital Corporation (the "COMPANY").

## 2. DEFINITIONS.

As used herein, the following terms shall have the meanings ascribed thereto below:

(a) "ACCOUNT" means a bookkeeping account maintained by the Company for each Award to track vesting and value pursuant to Sections 5 and 6.

(b) "AWARD" means the commitment of the Company to make payments under the Plan to an Eligible Employee selected pursuant to Section 4 in amounts determined in accordance with Sections 5 and 6.

(c) "BASE AMOUNT" means the amount of an Award at the time of its grant, denominated in Dollars.

(d) "BOARD" means the Board of Directors of the Company.

(e) "CHANGE IN CONTROL" has the meaning set forth in the Deferred Compensation Plan.

(f) "COMMITTEE" means a committee of the Board consisting solely of two (2) or more Non-employee Directors.

(g) "COMMON STOCK" means the common stock of the Company.

(h) "DEFERRED COMPENSATION PLAN" means the Company's Deferred Compensation Plan.

(i) "ELIGIBLE EMPLOYEE" means a select group of management or highly compensated employees (within the meaning of Title I of the Employee Retirement Income Security Act of 1974) regularly employed by the Company or any of its subsidiaries.

(j) "NON-EMPLOYEE DIRECTOR" means a director who is both a "non-employee director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

(k) "PARTICIPANT" means any Eligible Employee to whom an Award is granted.

(l) "SHARE EQUIVALENTS" means amounts credited to a Participant's Account pursuant to Section 5.1 to reflect an Award, and other amounts credited to such Account pursuant to the Plan.

(m) "SHARE EQUIVALENT VALUE" has the meaning set forth in Section 6.3.

(n) "SUB-ACCOUNT" means a First Sub-Account, Second Sub-Account, or Third Sub-Account making up a portion of an Account as described in Section 5.1.

(o) "VALUATION DATE" means each January 1 and July 1.

3. ADMINISTRATION OF THE PLAN.

3.1 Administrator. The Plan shall be administered by the Board, which shall have complete discretion and authority to interpret and construe the Plan and any Awards issued thereunder, decide all questions of eligibility and benefits (including underlying factual determinations), and adjudicate all claims and disputes.

3.2 Administrative Rules. The Board may (a) adopt, amend, and rescind rules and regulations relating to the Plan; (b) determine the Base Amount and any other terms and provisions of Awards not inconsistent with the Plan, (c) construe the provisions of the Plan and Awards; and (d) make all determinations necessary or advisable for administering the Plan. Any such actions by the Board shall be consistent with the provisions of the Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan or Award into effect, and it shall be the sole and final judge of such expediency. The determinations of the Board on the matters referred to in this Section 3.2 shall be final and binding on all interested parties.

3.3 Delegation. The Board may delegate any of its responsibilities with respect to the Plan to the Committee.

4. AWARDS.

4.1 Eligibility and Grants of Awards. Subject to the express provisions of the Plan, Awards may be granted to Eligible Employees by the Board or the Committee. Upon the date of any such grant, or any effective date of such grant specified by the Board or Committee different from the date the grant decision is made, the Award shall be effective and the recipient thereof shall be a Participant with respect to that Award. Each Award granted pursuant to the Plan shall be evidenced by a memorandum from the Company to the recipient specifying the Base Amount of the Award and such other terms as the Board or Committee shall deem necessary or desirable.

4.2 Continued Employment. The grant of an Award to an Eligible Employee pursuant to the Plan shall not give the Eligible Employee any right to be retained in the employ of the Company; and the right and power of the Company to dismiss or discharge any Eligible Employee or Participant, with or without cause, for any reason or no reason, is specifically reserved.

4.3 No Property Rights. The grant of an Award to an Eligible Employee pursuant to the Plan shall not be deemed the grant of a property interest in any assets of the Company. Each Award evidences only a general obligation of the Company to comply with the terms and conditions of the Plan and make payments in accordance with the Plan from the assets of the Company that are available for the satisfaction of obligations to creditors. The Company shall not segregate any assets in respect of any Awards or Participant Accounts. The rights of a Participant to benefits under this Plan shall be solely those of a general, unsecured creditor of the Company.

4.4 No Rights as a Shareholder. A Participant shall have no dividend, voting, or any other rights as a shareholder with respect to any Award or Account or Share Equivalents.

5. CREDITS TO ACCOUNTS.

5.1 Credits - General. The Company shall establish an Account for each Participant for each Award granted to that Participant. At the time of grant of each Award, the Share Equivalent of that Award shall be determined by dividing the Base Amount of the Award by the Share Equivalent Value determined as of the Valuation Date most recently preceding the date of the Award (or the Valuation Date as of which the Award is made, if applicable), and the resulting number of Share Equivalents shall be credited to the Account maintained for that Participant for that Award. The Share Equivalents originally credited to an Account shall be allocated into three sub-accounts, the first consisting of 10% of the total number of such Share Equivalents (the "FIRST SUB-ACCOUNT"), the second consisting of 25% of the total number of such Share Equivalents (the "SECOND SUB-ACCOUNT"), and the third consisting of 65% of the total number of such Share Equivalents (the "THIRD SUB-ACCOUNT"). Each Sub-Account may be credited with additional Share Equivalents pursuant to Section 5.2.

5.2 Additional Credits.

(a) Whenever the Company shall pay any dividends (other than in Common Stock) upon issued and outstanding Common Stock, or make any distribution (other than in Common Stock) with respect thereto, there shall be credited to each Sub-Account of each Participant a number of Share Equivalents determined by multiplying the "fair value" of any dividend (or other distribution) made by the Company with respect to one share of its Common Stock by the number of Share Equivalents in that Sub-Account and then dividing that product by the Share Equivalent Value determined as of the Valuation Date most recently preceding the date of the dividend or distribution (or the Valuation Date upon which the dividend or distribution is made, if applicable). In the case of a cash dividend or distribution, the "fair value" thereof shall be the amount of such cash, and, in the case of any other dividend or distribution, the "fair value" thereof shall be such amount as shall be determined in good faith by the Board or Committee.

(b) If the Company pays any dividend or distribution upon its issued and outstanding Common Stock payable in additional shares of such Common Stock, there shall be credited to each Sub-Account of each Participant a number of Share Equivalents equal to the product obtained by multiplying (i) the number of Share Equivalents in that Sub-Account at the time of payment by (ii) the number of shares of Common Stock issued as a stock dividend or distribution by the Company with respect to one share of its Common Stock.

(c) In the event of any change in the number of outstanding shares of the Common Stock effected without receipt of consideration therefor by the Company and not addressed by Section 5.2(a) or (b), whether by reason of a stock dividend or split, combination, exchange of shares or other recapitalization, merger in which the Company is the surviving corporation or other similar corporate change, then if the Board or Committee shall determine that such change equitably requires an adjustment in the number or kind of Share Equivalents then held in Participants' Sub-Accounts, or other computations under the Plan based upon Common Stock or its value, such adjustment shall be made by the Board or Committee and shall be conclusive and binding for all purposes of the Plan.

5.3 Cessation of Credits. There shall be no further credits to a Sub-Account after it vests, or to any account or accounts of a Participant after termination of his or her employment with the Company or a Change in Control.

6. VESTING AND PAYMENT.

6.1 Vesting. Except as provided below, Participants will have no vested interest in any Award prior to vesting thereof or in excess of the amount thereof vested. Each Award shall vest in three installments: the First Sub-Account for an Award shall vest on the second anniversary of the Valuation Date most recently preceding the date of the Award (or upon which the Award is made, if applicable); the Second Sub-Account for that Award shall vest on the third anniversary of the Valuation Date most recently preceding the date of the Award (or upon which the Award is made, if applicable); and the Third Sub-Account for that Award shall vest on the fourth anniversary of the Valuation Date most recently preceding the date of the Award (or upon which the Award is made, if applicable). Notwithstanding the foregoing, however, vesting shall immediately cease upon termination of the Participant's employment with the Company for any reason, and no vesting credit shall be given for partial years, regardless of the reason for termination of the Participant's employment with the Company. If a Participant's employment with the Company terminates for any reason, he or she shall immediately forfeit all nonvested Awards and account balances.

6.2 Change in Control. Notwithstanding the foregoing, all Awards shall vest in their entirety immediately prior to any Change in Control.

6.3 Payments. Within sixty (60) days of vesting of a Sub-Account, the Company shall pay to the Participant for whom that Sub-Account is maintained an amount equal to the product of the number of Share Equivalents in that Sub-Account on the date of vesting and the Share Equivalent Value then applicable. For these purposes, the Company shall determine the "SHARE EQUIVALENT VALUE" as of each Valuation Date as the arithmetic mean of the closing prices of the Common Stock on the New York Stock Exchange (or other exchange or market system upon which the Common Stock principally trades) for each trading day during the 12-month period ending on the day before that Valuation Date. The Share Equivalent Value determined as of each Valuation Date shall apply to the calculation of all credits and payments in respect of any vesting occurring on or after that Valuation Date and before the next succeeding Valuation Date.

6.4 Payments only to Participant. Payments pursuant to any Award shall be made only to the Participant recipient of that Award or his or her survivors.

6.5 Tax Limits. Notwithstanding anything herein to the contrary, if the Company's tax deduction for any payment under the Plan would be disallowed under Section 162(m) or 280G of the Internal Revenue Code of 1986, as amended, or for any other reason, the Company may, in its discretion, defer payment of the excess amount, but only to the extent that, and for so long as, the Company's tax deduction for the payment would be disallowed. Amounts that are deferred for this reason will accrue interest at a rate in accordance with the Deferred Compensation Plan.

6.6 Deferral. A Participant may elect at any time prior to the first anniversary of the date of grant of an Award to defer receipt of any or all payments due under the Plan in respect of that Award. Such election shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan.

7. TAXES.

7.1 Withholding. The amounts payable to a Participant under the Plan shall be reduced by any amount that the Company is required to withhold with respect to such payments under applicable law.

7.2 Participant Taxes. The Company is not responsible for, and makes no representation or warranty whatsoever in connection with, the tax treatment hereunder, and each Participant should consult his or her own tax advisor.

8. AMENDMENT OR TERMINATION.

The Board may, from time to time, amend, modify, change, suspend, or terminate, in whole or in part, any or all provisions of the Plan, except that no amendment, modification, change, suspension, or termination may affect any right of any Participant, without his or her consent, with respect to any Award granted prior to the effective date of such amendment, modification, change, suspension, or termination.

9. ASSIGNMENT.

No right or interest to or in any Award, payment or benefit to a Participant shall be assignable by such Participant except by will or the laws of descent and distribution. No right, benefit or interest of a Participant hereunder shall be subject to anticipation, alienation, sale, assignment, encumbrance, charge, pledge, hypothecation or set off in respect of any claim, debt or obligation, or to execution, attachment, levy or similar process or assignment by operation of law. Any attempt, voluntarily or involuntarily, to effect any action specified in the immediately preceding sentences shall, to the full extent permitted by law, be null, void and of no effect; provided, however, that this provision shall not preclude a Participant from designating one or more beneficiaries to receive any amount that may be payable to such Participant under the Plan after his or her death and shall not preclude the legal representatives of the Participant's estate from assigning any right hereunder to the person or persons entitled thereto under his or her will, or, in the case of intestacy, to the person or persons entitled thereto under the laws of intestacy applicable to his or her estate.

10. GENERAL.

10.1 Laws Governing. The substantive laws of the State of California shall govern the validity, construction, enforcement and interpretation of the Plan and all Awards, unless otherwise specified therein.

10.2 Good Faith Determinations. No member of the Committee or the Board shall be liable, with respect to the Plan or any Award, for any act, whether of commission or omission, taken by any other member or by any officer, agent, or employee of the Company, nor, excepting circumstances involving his or her own bad faith, for anything done or omitted to be done by himself or herself. The Company shall indemnify and hold harmless each member of the Committee and Board from and against any liability or expense hereunder, except in the case of such member's own bad faith.

10.3 Effect of Headings. Section headings contained in the Plan are for convenience only and shall not affect the construction or interpretation of the Plan.

10.4 Invalid Provisions. If any provision of the Plan or any Award granted hereunder is held to be illegal, invalid or unenforceable under present or future laws effective during the term of the Plan, such provision shall be fully severable; the Plan or such Award shall be construed and enforced as if such illegal, invalid or unenforceable provision had never been a part of the Plan or such Award; and the remaining provisions of the Plan or such Award shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or severance from the Plan or such Award. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of the Plan or such Award a provision as similar in terms to such illegal, invalid or unenforceable provision as is possible and still be legal, valid and enforceable.

10.5 Set-Off. The Company shall be entitled, at its option and not in lieu of any other remedies to which it may be entitled, to set off any amounts due the Company or any affiliate of the Company against any amount due and payable by the Company or any affiliate of the Company to a Participant pursuant to this Plan or otherwise.

10.6 Waivers. No waiver of any term or condition hereof shall be binding unless it is in writing and signed by the Company and the affected Participant. The waiver by any party of a breach of any provision of this Plan shall not operate or be construed as a waiver of any subsequent breach by any party.

10.7 Inurement. The rights and obligations under the Plan and any related agreements shall inure to the benefit of, and shall be binding upon the Company, its successors and assigns, and the Participants and their beneficiaries and legal representatives.

10.8 Entire Agreement. This Plan constitutes the entire agreement between the Company and the Participants concerning the subject matter hereof, and supersedes all other agreements, whether written or oral, with respect to such subject matter.

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. This Amendment and Restatement of the Plan was approved by the Board on September 7, 1995, subject to shareholder approval, which was obtained at the Annual Meeting of Shareholders held on November 1, 1995, and is effective as of that date, provided that holders of options shall receive Additional Options pursuant to Section 6(a) of the Plan as amended through Amendment No. 8 thereto in respect of exercises or terminations of Initial Options or Additional Options until December 31, 1995. 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 (including Additional Options granted pursuant to the preceding sentence) 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. 8 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 number of shares covered by 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. A person shall be eligible to receive grants of options under the Plan (an "ELIGIBLE DIRECTOR") if, at the time of the option's grant, he or she is a duly elected or appointed member of the Board, but is not and has not since the beginning of the Company's most recently completed fiscal year been (a) granted or awarded any equity securities of the Company (including, without limitation, stock options and stock appreciation rights) except pursuant to the Plan or a similar plan for directors of the Company, or (b) an employee of the Company or any of its affiliates or otherwise eligible for selection as a person to whom equity securities of the Company (including, without limitation, stock options and stock appreciation rights) may be allocated or granted pursuant to any plan of the Company or any of its affiliates (other than the Plan or a similar plan for directors of the Company) entitling participants therein to acquire stock, stock options, or stock appreciation rights of the Company or any of its affiliates.

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 800,000 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), increase the number of shares for which an option or options may be granted to any optionee (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"). 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 15, 2005 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. 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 30,000 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 (a) vesting as set forth in Section 2.03, and (b) 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 7,500 shares of the Company's Common Stock (an "ADDITIONAL OPTION"), subject to adjustment as set forth in Article III. 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 (a) vesting as set forth in Section 2.03, and (b) adjustment as set forth in Article III.

2.03 Vesting. Initial Options shall vest and become exercisable in installments of 5,000 shares on the first anniversary of the date of grant and 1,250 shares at the end of each of the next 12 three-month periods thereafter. Additional Options shall vest and become exercisable in installments of 1,250 shares on the first anniversary of the date of grant and 312.5 shares 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.

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. 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.

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.

# # #

Amended 03/20/97: Section 1.08
Amended 07/10/97: Section 2.01, 2.02, 3.01

EXHIBIT 10.34

# FISCAL YEAR 1998
# WESTERN DIGITAL MANAGEMENT INCENTIVE PLAN (MIP)

## PURPOSE

The purpose of this Plan is to focus participants on achieving key financial and strategic objectives at the corporate and business group levels that will lead to the creation of value for the Company's shareholders and provide participants the opportunity to earn significant awards, commensurate with performance.

## ELIGIBILITY

Plan eligibility is extended to all employees of Western Digital and selected employees of its domestic subsidiaries who are in, or who are hired into, salary grades 68 and above (or equivalent) on or before January 5, 1998.

Eligibility may be granted to employees who have an authorized written agreement that grants them eligibility.

Employees of Western Digital and its domestic subsidiaries who are in salary grades 67 or below (or equivalent) are eligible for awards generated by a secondary bonus pool.

## DESCRIPTION OF THE PLAN

The 1998 Management Incentive Plan will pay a combination of cash and deferred awards to participants for the achievement of predetermined performance goals. Each participant will be assigned a pool or target bonus percentage, which when multiplied by the participant's annual base salary as of June 30, 1998, will determine the pool or target bonus payout.

Predetermined performance goals will be established and approved by the Compensation Committee of the Board of Directors before the end of the first quarter of the fiscal year.

The actual performance achieved will determine the percentage used to calculate the award at the end of the plan year. The size of the actual award can vary between 0% and 200% of the pool or target award.

In addition, individual awards may be adjusted upward or downward by the Chief Executive Officer from the amount generated by the formula. The Chief Executive Officer's award may be adjusted upward or downward by the Compensation Committee.

## OPERATION OF THE PLAN

| | |
|---|---|
| Plan Year: | July 1, 1997 to June 30, 1998 |
| Award Opportunities: | The award for participants will be expressed as a percentage of salary and determined according to salary grade. |
| 1998 Goals and Weighting: | Each business group will have goals at the corporate and/or business group level, and each goal will have an assigned weighting.<br><br>The percentage of target bonus opportunity earned (before discretionary adjustments) will vary from the target bonus opportunity based on actual performance achieved relative to the performance goals. |

ADDITIONAL PROVISIONS

Award Thresholds: Corporate operating profit must be at least 50% of the Annual Operating Plan for incentives to be paid under any aspect of the Plan.

In addition, each business group will have a predetermined operating profit threshold. If the threshold is not met, no incentive payments can occur for that business group.

Total Award Cap: Total awards paid under this Plan may not exceed a preset percentage of corporate operating profit as determined by the Compensation Committee. Any award reductions attributable to the preset percentage cap will be made by the Chief Executive Officer.

Award Adjustment: Group award levels may be adjusted upward or downward by up to 25% by the Chief Executive Officer.

After application of the group performance, individual awards may be adjusted upward or downward based on the adjustment table below. Approval from the Chief Executive Officer is required for adjustments outside of these limits. The Chief Executive Officer's award may be adjusted upward or downward by the Compensation Committee. The adjustments by salary grade level (or equivalent) are as follows:

| Salary Grade (or equivalent) | Upward Adjustment | Downward Adjustment |
|---|---|---|
| 68, 69 & 84 | +100% (1) | -100% (1) |
| All others | +40% | -40% |

(1) The adjustment factors are higher for those in salary grades 68, 69 and 84 since these individuals also participate in Western Digital's Profit Sharing Plan.

All awards under this Plan are discretionary. The amount of the award including adjustments is determined by Western Digital in its sole discretion. No employee has any contractual right to receive an award pursuant to this Plan due to his/her employment at Western Digital.

Extraordinary Events: The Compensation Committee, in its discretion, may adjust the basis upon which performance is measured to reflect the effect of significant changes that include, but are not limited to, unbudgeted acquisitions/divestitures, unusual or extraordinary accounting items, or significant, unplanned changes in the economic or regulatory environment.

| | |
|---|---|
| Termination: | Participants must be employed by the Company at the end of the plan year to receive an award. If a participant terminates for reason of retirement, total and permanent disability, or death, the Compensation Committee has the discretion to pay prorated awards based upon the percentage of the year worked. |
| Partial Year Participation: | The Compensation Committee, in its discretion, may pay prorated awards to people hired or promoted into eligible positions after July 1, 1997. |
| Deferred Payout: | At the beginning of the plan year, the participant may elect to defer payout of all or part of the award in accordance with Western Digital's Deferred Compensation Plan. |
| Payout of Award: | Awards will be paid in cash as soon as possible following the end of the plan year or according to the participant's deferral election. In addition, an amount will be deducted from the award and contributed to Western Digital's Savings and Profit Plan. This amount will be based upon a percentage of salary. This percentage will be the same as that used by all participants in the Western Digital Profit Sharing Plan. |
| Secondary Pool: | Secondary award pools will be created for employees in salary grades 67 and below (or equivalent) for all corporate and business groups.<br><br>Management has the discretion to award any one individual up to a maximum of 10% of salary. Approval of the Chief Executive Officer is required for discretion outside this limit.<br><br>The intent of this pool is to allow for the top 10% of the remaining population to receive 5% of their salary as a bonus. |

EXHIBIT 10.37

# AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

Dated as of May 5, 1997

among

WESTERN DIGITAL CORPORATION,
NATIONSBANK OF TEXAS, N.A.,
BANKBOSTON, N.A.
(f/k/a The First National Bank of Boston)
and the other lending institutions listed on Schedule 1 hereto

and

NATIONSBANK OF TEXAS, N.A.
as Syndication Agent

and

BANKBOSTON, N.A.
(f/k/a The First National Bank of Boston)
as
Administrative Agent

with

BANCBOSTON SECURITIES INC.
and
NATIONSBANC CAPITAL MARKETS, INC.

having acted as arrangers for this transaction

# AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

This AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT is made as of May 5, 1997, by and among (a) WESTERN DIGITAL CORPORATION (the "Borrower"), a Delaware corporation having its principal place of business at 8105 Irvine Center Drive, Irvine, California 92718, (b) NATIONSBANK OF TEXAS, N.A., BANKBOSTON, N.A. (f/k/a The First National Bank of Boston), and the other lending institutions listed on Schedule 1 hereto, (c) NATIONSBANK OF TEXAS, N.A., as syndication agent for the Banks (as hereinafter defined)(the "Syndication Agent") and (d) BANKBOSTON, N.A. (f/k/a The First National Bank of Boston) as administrative agent for the Banks (the "Agent" and, collectively with the Syndication Agent, the "Bank Agents").

WHEREAS, pursuant to a Revolving Credit Agreement dated as of April 24, 1996 (as amended and in effect from time to time, the "Original Credit Agreement"), by and among the Borrower, certain of the Banks (as hereinafter defined) and the Bank Agents, the Banks party thereto made revolving credit loans and other extensions of credit to the Borrower for general corporate and working capital purposes; and

WHEREAS, the Borrower has requested, among other things, to amend and restate the Original Credit Agreement on the terms and conditions set forth herein and the Banks are willing to amend and restate the Original Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, the Borrower, the Banks and the Bank Agents agree that on the Closing Date the Original Credit Agreement is hereby amended and restated and shall remain in full force and effect only as set forth herein.

## 1. DEFINITIONS AND RULES OF INTERPRETATION.

1.1. DEFINITIONS. The terms set forth in Section 1.1 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such term was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement, provided, that the definitions of "Applicable Margin" and "Revolving Credit Loan Maturity Date" contained therein shall each be deleted in its entirety and restated as follows:

Applicable Margin. For each period commencing on an Adjustment Date through the date immediately preceding the next Adjustment Date (each a "Rate Adjustment Period"), the Applicable Margin shall be the applicable margin set forth below with respect to the Borrower's Fixed Charge Coverage Ratio as determined for the fiscal period of the Borrower ending on the fiscal quarter ended immediately preceding the applicable Rate Adjustment Period.

| FIXED CHARGE COVERAGE RATIO | BASE RATE LOANS (BASIS POINTS) | EURODOLLAR RATE LOANS (BASIS POINTS) | COMMITMENT FEE RATE (BASIS POINTS) | LETTER OF CREDIT FEES (BASIS POINTS) |
|---|---|---|---|---|
| Less than 3.00:1.00 | 0 | 87.5 | 25 | 87.5 |
| Greater than or equal to 3.00:1.00, but less than 4.00:1.00 | 0 | 65 | 22.5 | 65 |
| Greater than or equal to 4.00:1.00, but less than 5.50:1.00 | 0 | 47.5 | 17.5 | 47.5 |
| Greater than or equal to 5.50:1.00 | 0 | 40 | 15 | 40 |

Notwithstanding the foregoing, (a) for Revolving Credit Loans outstanding and Letter of Credit Fees and the Commitment Fee Rate payable during the period commencing on the Closing Date through the date immediately preceding the first Adjustment Date to occur after March 31, 1997, the Applicable Margin shall be the lowest Applicable Margin set forth above, and (b) if the Borrower fails to deliver any Compliance Certificate when required by Section 8.4(c) hereof then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the highest Applicable Margin set forth above.

Revolving Credit Loan Maturity Date. April 24, 2000, unless extended in accordance with Section 2.1.2, and then such date as set forth in such extension notice.

1.2. RULES OF INTERPRETATION. The rules of interpretation set forth in Section 1.2 of the Original Credit Agreement shall be incorporated by reference herein.

## 2. THE REVOLVING CREDIT FACILITY.

The provisions set forth in Section 2 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

## 3. REPAYMENT OF THE REVOLVING CREDIT LOANS.

The provisions set forth in Section 3 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

4. LETTERS OF CREDIT.

The provisions set forth in Section 4 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

5. CERTAIN GENERAL PROVISIONS.

The provisions set forth in Section 5 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

6. GUARANTIES.

The provisions set forth in Section 6 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

7. REPRESENTATIONS AND WARRANTIES.

The provisions set forth in Section 7 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

8. AFFIRMATIVE COVENANTS OF THE BORROWER.

The provisions set forth in Section 8 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

9. CERTAIN NEGATIVE COVENANTS OF THE BORROWER.

The provisions set forth in Section 9 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

10. FINANCIAL COVENANTS OF THE BORROWER.

The Borrower covenants and agrees that, so long as any Revolving Credit Loan, Unpaid Reimbursement Obligation, Letter of Credit or Revolving Credit Note is outstanding or any Bank has any obligation to make any Revolving Credit Loans or the Agent has any obligation to issue, extend or renew any Letters of Credit:

10.1. PROFITABLE OPERATIONS. The Borrower will not permit Consolidated Net Income or Consolidated Net Operating Income for any two consecutive fiscal quarters to be less than $1.00.

10.2. FIXED CHARGE COVERAGE RATIO. The Borrower will not as at the end of any fiscal quarter, permit the ratio of (a) the sum of (i) EBITDA for the period of four (4) consecutive fiscal quarters ending on such date plus (ii) Rental Obligations for the period of four (4) consecutive fiscal quarters ending on such date to (b) the sum of (i) Consolidated Total Interest Expense for the period of four (4) consecutive fiscal quarters ending on such date plus (ii) Rental Obligations for the period of four (4) consecutive fiscal quarters ending on such date, to be less than 2.50:1.00.

10.3. MINIMUM LIQUIDITY. The Borrower will not permit the ratio of (a) the sum of (i) cash of the Borrower plus (ii) Current Accounts Receivable of the Borrower to (b) the sum of (i) accounts payable of the Borrower plus (ii) Senior Funded Indebtedness to be less than 1.25 to 1.00 at any time.

10.4. CONSOLIDATED NET WORTH. The Borrower will not permit Consolidated Net Worth at any time to be less than the greater of (a) $450,000,000 or (b) the sum of (i) $450,000,00 plus, on a cumulative basis, (ii) 75% of positive Consolidated Net Income for each fiscal quarter beginning with the fiscal quarter ended June 30, 1997, minus (iii) 100% of the purchase price paid by the Borrower to repurchase the capital stock of the Borrower in such fiscal quarters.

11. CLOSING CONDITIONS.

The obligations of the Banks to make the initial Revolving Credit Loans and of the Agent to issue any initial Letters of Credit shall be subject to the satisfaction of the following conditions precedent.

11.1. LOAN DOCUMENTS. The Credit Agreement shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to each of the Banks. Each Bank shall have received a fully executed copy of such document.

11.2. CERTIFIED COPIES OF CHARTER DOCUMENTS. Each of the Banks shall have received from the Borrower and each of its Subsidiaries a secretary's certificate from each such Person certifying that no changes have been made to each of (a) its charter or other incorporation documents from the date previously delivered to the Agent under the Original Credit Agreement, and (b) its by-laws as in effect on such date, other than the changes to the Borrower's charter documents which have been disclosed in writing to the Agent. In addition, the Borrower shall provide the Agent with evidence of the liquidation of each of Selanar Corporation, Western Digital Capital Corporation, Western Digital Europe and Western Digital Pacific Corporation.

11.3. CORPORATE, ACTION. All corporate action necessary for the valid execution, delivery and performance by the Borrower and each of its Subsidiaries of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Banks shall have been provided to each of the Banks.

11.4. OPINION OF COUNSEL. Each of the Banks and the Agent shall have received a favorable legal opinion addressed to the Banks and the Agent, dated as of the Closing Date, in form and substance satisfactory to the Banks and the Agent, from Michael A. Cornelius, Esq., counsel to the Borrower and its Domestic Subsidiaries.

## 12. CONDITIONS TO ALL BORROWINGS.

The provisions set forth in Section 12 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

## 13. EVENTS OF DEFAULT; ACCELERATION; ETC.

The provisions set forth in Section 13 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

## 14. SETOFF.

The provisions set forth in Section 14 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

15. THE BANK AGENTS.

The provisions set forth in Section 15 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

16. EXPENSES.

The provisions set forth in Section 16 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

17. INDEMNIFICATION.

The provisions set forth in Section 17 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

18. SURVIVAL OF COVENANTS, ETC.

The provisions set forth in Section 18 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

19. ASSIGNMENT AND PARTICIPATION; ACCESSION.

The provisions set forth in Section 19 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

20. NOTICES, ETC.

The provisions set forth in Section 29 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

21. GOVERNING LAW.

The provisions set forth in Section 21 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

22. HEADINGS.

The provisions set forth in Section 22 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

23. COUNTERPARTS.

The provisions set forth in Section 23 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

24. ENTIRE AGREEMENT, ETC.

The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in Section 26.

25. WAIVER OF JURY TRIAL.

Each of the Borrower and the Banks hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Credit Agreement, the Revolving Credit Notes or any of the other Loan Documents, any rights or obligations hereunder or thereunder or the performance of which rights and obligations. Except as prohibited by law, the Borrower hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Borrower (a) certifies that no representative, agent or attorney of any Bank or either of the Bank Agents has represented, expressly or otherwise, that such Bank or such Bank Agent would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that each of the Bank Agents and the Banks have been induced to enter into this Credit Agreement, the other Loan Documents to which it is a party by, among other things, the waivers and certifications contained herein.

26. CONSENTS, AMENDMENTS, WAIVERS, ETC.

The provisions set forth in Section 26 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

27. SEVERABILITY.

The provisions set forth in Section 27 of the Original Credit Agreement shall be incorporated by reference herein and shall have the same effect in this Credit Agreement as if each such provision was set forth verbatim herein, and shall survive the termination, amended and restatement of the Original Credit Agreement.

28. TRANSITIONAL ARRANGEMENTS.

This Credit Agreement shall on the Closing Date supersede the Original Credit Agreement, except as provided in this Section 28. On the Closing Date, the rights and obligations of the parties evidenced by the Original Credit Agreement shall be evidenced by this Credit Agreement and other Loan Documents, the "Revolving Credit Loans" as defined in the Original Credit Agreement shall be converted to Revolving Credit Loans as defined herein, and all outstanding letters of credit issued by the Agent for the account of the Borrower prior to the Closing Date shall, for the purposes of this Credit Agreement, be Letters of Credit. All interest and fees and expenses, if any, owing or accruing under or in respect of the Original Credit Agreement through the Closing Date shall be calculated as of the Closing Date (prorated in the case of any fractional periods) and shall be paid in accordance with the method, and on the dates, specified in the Original Credit Agreement, as if the Original Credit Agreement were still in effect. Commencing on the Closing Date, the commitment fees shall be payable by the Borrower to the Agent for the account of the Banks in accordance with Section 2.2.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN
---------------------------------------
Name: Steven M. Slavin
Title: Vice President, Taxes & Treasurer

NATIONSBANK OF TEXAS, N.A.,
individually and as Syndication Agent

By:
---------------------------------------
Name:
Title:

THE FIRST NATIONAL BANK OF
BOSTON, individually and as Agent

By:
---------------------------------------
Name:
Vice President

UNION BANK OF CALIFORNIA, N.A.

By:
---------------------------------------
Name:
Title:

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WESTERN DIGITAL CORPORATION

By:
---------------------------------------
Name:
Title:

NATIONSBANK OF TEXAS, N.A.,
individually and as Syndication Agent

By: /s/ STAN W. REYNOLDS
---------------------------------------
Name: STAN W. REYNOLDS
Title: VICE PRESIDENT

THE FIRST NATIONAL BANK OF
BOSTON, individually and as Agent

By:
---------------------------------------
Name:
Vice President

UNION BANK OF CALIFORNIA, N.A.

By:
---------------------------------------
Name:
Title:

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WESTERN DIGITAL CORPORATION

By:
----------------------------------------
Name:
Title:

NATIONSBANK OF TEXAS, N.A.,
individually and as Syndication Agent

By:
----------------------------------------
Name:
Title:

BANKBOSTON, N,A. (f/k/a The First National
Bank of Boston),individually and as Agent

By: /s/ BANKBOSTON
----------------------------------------
Name: BankBoston
Vice President

UNION BANK OF CALIFORNIA, N.A.

By:
----------------------------------------
Name:
Title:

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WESTERN DIGITAL CORPORATION

By:
----------------------------------------
Name:
Title:

NATIONSBANK OF TEXAS, N.A.,
individually and as Syndication Agent

By:
----------------------------------------
Name:
Title:

THE FIRST NATIONAL BANK OF BOSTON,
individually and as Agent

By:
----------------------------------------
Name:
Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ SCOTT LANE
----------------------------------------
Name: Scott Lane
Title: Vice President

BANQUE NATIONALE de PARIS

By: /s/ CLIVE BETTLES
----------------------------------------
Name: Clive Bettles
Title: Senior Vice President and Manager

By: /s/ TJALLING TERPSTRA
----------------------------------------
Name: Tjalling Terpstra
Title: Vice President

THE BANK OF NOVA SCOTIA

By:
----------------------------------------
Name:
Title:

FLEET NATIONAL BANK

By:
----------------------------------------
Name:
Title:

THE SUMITOMO BANK, LIMITED

By:
----------------------------------------
Name:
Title:

MITSUBISHI TRUST & BANKING CORPORATION

By:
----------------------------------------
Name:
Title:

BANQUE NATIONALE de PARIS

By:
----------------------------------------
Name:
Title:

By:
----------------------------------------
Name:
Title:

THE BANK OF NOVA SCOTIA

By: /s/ W.H. TILLINGER
----------------------------------------
Name: W.H. TILLINGER
Title: Relationship Manager

FLEET NATIONAL BANK

By:
----------------------------------------
Name:
Title:

THE SUMITOMO BANK, LIMITED

By:
----------------------------------------
Name:
Title:

MITSUBISHI TRUST & BANKING CORPORATION

By:
----------------------------------------
Name:
Title:

BANQUE NATIONALE de PARIS

BY:
----------------------------------------
Name
Title

BY:
----------------------------------------
Name:
Title:

THE BANK OF NOVA SCOTIA

By:
----------------------------------------
Name:
Title:

FLEET NATIONAL BANK

By: FLEET NATIONAL BANK
----------------------------------------
Name: Fleet National Bank
Title: VP

THE SUMITOMO BANK, LIMITED

By:
----------------------------------------
Name:
Title:

MITSUBISHI TRUST & BANKING CORPORATION

By:
----------------------------------------
Name:
Title:

BANQUE NATIONALE de PARIS

BY:
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Name
Title

BY:
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Name:
Title:

THE BANK OF NOVA SCOTIA

By:
----------------------------------------
Name:
Title:

FLEET NATIONAL BANK

By:
----------------------------------------
Name:
Title:

THE SUMITOMO BANK, LIMITED

By: /s/ GORO HIRAI
----------------------------------------
Name: GORO HIRAI
Title: JOINT GENERAL MANAGER

MITSUBISHI TRUST & BANKING CORPORATION

By:
----------------------------------------
Name:
Title:

BANQUE NATIONALE de PARIS

BY:
----------------------------------------
Name
Title

BY:
----------------------------------------
Name:
Title:

THE BANK OF NOVA SCOTIA

By:
----------------------------------------
Name:
Title:

FLEET NATIONAL BANK

By:
----------------------------------------
Name:
Title:

THE SUMITOMO BANK, LIMITED

By:
----------------------------------------
Name:
Title:

MITSUBISHI TRUST & BANKING CORPORATION (USA)

By: /s/ GARY T. MACIAK
----------------------------------------
Name: Gary T.Maciak
Title: First Vice President

RATIFICATION OF GUARANTY

Each of the undersigned guarantors hereby acknowledges and consents to the foregoing Amended and Restated Revolving Credit Agreement as of May 5, 1997, and agrees that the Guaranty dated as of April 24, 1996 from Western Digital Rochester Inc. (the "Guarantor") in favor of the Agent, the Syndication Agent and each of the Banks, and all other Loan Documents to which the Guarantor is a party remain in full force and effect, and the Guarantor confirms and ratifies all of its obligations thereunder.

WESTERN DIGITAL ROCHESTER, INC.

By: /s/ STEVEN M. SLAVIN

Title: Steven M. Slavin, President

SCHEDULE 1

Commitments; Commitment Percentages

| Bank | Commitment | Commitment Percentage |
|---|---|---|
| NationsBank of Texas, N.A.<br>Domestic Lending Office:<br>901 Main Street, 67th Floor<br>Dallas, TX 75283-1000<br>Attn: Stan Reynolds<br>Vice President<br>Eurodollar Lending Office:<br>Same as Above | $ 25,750,000 | 17.1667% |
| BankBoston, N.A. (f/k/a The<br>First National Bank of Boston)<br>Domestic Lending Office<br>100 Federal Street<br>Boston, MA 02110<br>Attn: High Technology Division<br>Eurodollar Lending Office:<br>Same as Above | $ 25,750,000 | 17.1667% |
| Fleet National Bank<br>Domestic Lending Office<br>One Federal Street - MAOFO323<br>Boston, MA 02211<br>Attn: Frank Benesh<br>Managing Director<br>Eurodollar Lending Office:<br>Same as Above | $ 20,000,000 | 13.3333% |
| The Sumitomo Bank, Limited<br>Domestic Lending Office<br>777 S. Figueroa Street, Suite 2600<br>Los Angeles, CA 90017<br>Attn: Mr. Mike Jackson<br>Eurodollar Lending Office:<br>Same as Above | $ 20,000,000 | 13.3333% |
| Union Bank of California, N.A.<br>Domestic Lending Office:<br>550 South Hope Street, 5th Floor<br>Los Angeles, CA 90071<br>Attn: Scott Lane, Vice President<br>Eurodollar Lending Office:<br>Same as Above | $ 18,500,000 | 12.3333% |

| | | |
|---|---|---|
| Banque Nationale de Paris<br>Domestic Lending Office<br>725 Figueroa Street<br>Los Angeles, CA 90017<br>Attn: Mr. Tjalling Terpstra<br>Eurodollar Lending Office:<br>Same as Above | $ 15,000,000 | 10.0000% |
| The Bank of Nova Scotia<br>Domestic Lending Office:<br>580 California Street, Suite 2100<br>San Francisco, CA 94104<br>Attn: Werner Tillinger,<br>Relationship Manager<br>Eurodollar Lending Office:<br>Same as Above | $ 15,000,000 | 10.0000% |
| Mitsubishi Trust & Banking<br>Corporation<br>Domestic Lending Office<br>520 Madison Avenue<br>New York, NY 10022<br>Attn: Mr. Gary Maciak<br>Eurodollar Lending Office:<br>Same as Above | $ 10,000,000 | 6.6667% |
| Totals | $150,000,000 | 100% |

EXHIBIT 11

WESTERN DIGITAL CORPORATION

COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | YEARS ENDED JULY 1, 1995 | YEARS ENDED JUNE 29, 1996 | YEARS ENDED JUNE 30, 1997 |
|---|---|---|---|
| PRIMARY | | | |
| Net income | $123,302 | $ 96,894 | $267,596 |
| Weighted average number of common shares outstanding during the period | 92,164 | 92,558 | 87,261 |
| Incremental common shares attributable to exercise of outstanding options, warrants and ESPP contributions | 4,232 | 3,690 | 6,260 |
| Total shares | 96,396 | 96,248 | 93,521 |
| Net earnings per share | $ 1.28 | $ 1.01 | $ 2.86 |
| FULLY DILUTED | | | |
| Net income | $123,302 | $ 96,894 | $267,596 |
| Add back: interest expense, net of income tax effect applicable to convertible subordinated debentures | 3,594 | -- | -- |
| | $126,896 | $ 96,894 | $267,596 |
| Weighted average number of common shares outstanding during the period | 92,164 | 92,558 | 87,261 |
| Incremental common shares attributable to exercise of outstanding options, warrants and ESPP contributions | 4,250 | 4,002 | 6,619 |
| Incremental common shares attributable to conversion of convertible subordinated debentures | 6,426 | -- | -- |
| Total shares | 102,840 | 96,560 | 93,880 |
| Net earnings per share | $ 1.23 | $ 1.00 | $ 2.85 |

EXHIBIT 21

WESTERN DIGITAL CORPORATION

SUBSIDIARIES OF THE COMPANY

| NAME | JURISDICTION |
|---|---|
| Western Digital Ireland, Ltd. | Cayman Islands |
| Western Digital (Malaysia) SDN BHD | Malaysia |
| Western Digital (Deutschland) GmbH | Federal Republic of Germany |
| Western Digital (France) S.a.r.1. | France |
| Western Digital Japan Ltd. | Japan |
| Western Digital (U.K.) Limited | United Kingdom |
| Western Digital Canada Corporation | Canada |
| Western Digital (Singapore) Pte Ltd | Singapore |
| Western Digital Taiwan Co., Ltd. | Taiwan, Republic of China |
| Western Digital Hong Kong Limited | Hong Kong |
| Western Digital Netherlands B.V. | The Netherlands |
| Western Digital (S.E. Asia) Pte Ltd | Singapore |
| Western Digital (I.S.) Limited | Ireland |
| Western Digital (Tuas-Singapore) Pte Ltd | Singapore |
| Pacifica Insurance Corporation | Hawaii |

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, 33-57953, 33-9853, 33-15771, 33-60166, 33-60168, 33-51725, 333-20359 and 333-31487) on Form S-8 of Western Digital Corporation of our report dated July 16, 1997, relating to the consolidated balance sheets of Western Digital Corporation as of June 29, 1996 and June 28, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended June 28, 1997, and the related schedule, which report appears in the June 28, 1997 Annual Report on Form 10-K of Western Digital Corporation.

KPMG PEAT MARWICK LLP

Orange County, California
September 12, 1997

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED INCOME STATEMENTS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JUNE 28, 1997.

1,000

YEAR
JUN-28-1997
JUN-30-1996
JUN-28-1997
208,276
0
557,258
11,706
224,474
1,017,895
415,661
167,766
1,307,122
653,705
0
0
0
859
619,128
1,307,122
4,177,857
4,177,857
3,527,574
3,527,574
348,687
7,116
13,223
314,819
47,223
267,596
0
0
0
267,596
2.86
2.85