

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 1, 1995.

OR

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

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

-----  
(Exact name of Registrant as specified in its charter)

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

8105 Irvine Center Drive 92718  
Irvine, California  
-----  
(Address of principal executive offices) (Zip Code)

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

N/A

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

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

Number of shares outstanding of Common Stock, as of May 1, 1995 is 46,384,564.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

WESTERN DIGITAL CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

|   | THREE-MONTH PERIOD ENDED |                   |
|---|--------------------------|-------------------|
|   | APRIL 1,<br>1995         | MARCH 26,<br>1994 |
| Revenues, net . . . . .   | \$529,297                | \$420,878         |
| Costs and expenses:   |                          |                   |
| Cost of revenues . . . . .  | 440,929                  | 327,116           |
| Research and development . . . . .  | 33,500                   | 27,542            |
| Selling, general and administrative . . . . .                               | 34,204                   | 32,071            |
| Total costs and expenses . . . . .  | 508,633                  | 386,729           |
| Operating income . . . . .  | 20,664                   | 34,149            |
| Interest and other income (expense), net . . . . .                          | 2,430                    | (681)             |
| Income before income taxes . . . . .  | 23,094                   | 33,468            |
| Provision for income taxes . . . . .  | 3,444                    | 5,020             |
| Net income . . . . .  | \$ 19,650                | \$ 28,448         |
| Earnings per common and common<br>equivalent share (Note 2):                |                          |                   |
| Primary . . . . .   | \$ .40                   | \$ .64            |
| Fully diluted . . . . .   | \$ .40                   | \$ .61            |
| Common and common equivalent shares used<br>in computing per share amounts: |                          |                   |
| Primary . . . . .   | 48,586                   | 44,480            |
| Fully diluted . . . . .   | 51,386                   | 48,863            |

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

WESTERN DIGITAL CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

|   | NINE-MONTH PERIOD ENDED |                   |
|---|-------------------------|-------------------|
|   | APRIL 1,<br>1995        | MARCH 26,<br>1994 |
| Revenues, net . . . . .   | \$1,545,831             | \$1,077,448       |
| Costs and expenses:   |                         |                   |
| Cost of revenues . . . . .  | 1,250,656               | 864,446           |
| Research and development . . . . .  | 93,087                  | 83,967            |
| Selling, general and administrative . . . . .                               | 96,192                  | 80,589            |
| Total costs and expenses . . . . .  | 1,439,935               | 1,029,002         |
| Operating income . . . . .  | 105,896                 | 48,446            |
| Interest and other income (expense), net . . . . .                          | 8,106                   | (6,285)           |
| Income before income taxes . . . . .  | 114,002                 | 42,161            |
| Provision for income taxes . . . . .  | 17,080                  | 6,324             |
| Net income . . . . .  | \$ 96,922               | \$ 35,837         |
| Earnings per common and common equivalent<br>share (Note 2):                |                         |                   |
| Primary . . . . .   | \$ 2.03                 | \$ .91            |
| Fully diluted . . . . .   | \$ 1.95                 | \$ .88            |
| Common and common equivalent shares used<br>in computing per share amounts: |                         |                   |
| Primary . . . . .   | 47,844                  | 39,507            |
| Fully diluted . . . . .   | 51,364                  | 44,917            |

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

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

|   | APRIL 1,<br>1995 | JUNE 30,<br>1994 |
|---|------------------|------------------|
|   | -----            | -----            |
| ASSETS  |                  |                  |
| Current assets:   |                  |                  |
| Cash and cash equivalents . . . . .   | \$188,717        | \$243,484        |
| Short-term investments (Note 1) . . . . .   | 91,619           | --               |
| Accounts receivable, less allowance for doubtful<br>accounts of \$10,761 and \$10,825 . . . . .   | 255,923          | 201,512          |
| Inventories (Note 3) . . . . .  | 93,742           | 79,575           |
| Prepaid expenses . . . . .  | 26,249           | 12,917           |
|   | -----            | -----            |
| Total current assets . . . . .  | 656,250          | 537,488          |
| Property and equipment, at cost, less accumulated<br>depreciation and amortization . . . . .  | 82,864           | 73,417           |
| Intangible and other assets, net . . . . .  | 38,884           | 29,608           |
|   | -----            | -----            |
| Total assets . . . . .  | \$777,998        | \$640,513        |
|   | =====            | =====            |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |                  |                  |
| Current liabilities:  |                  |                  |
| Accounts payable . . . . .  | \$198,201        | \$172,730        |
| Accrued expenses . . . . .  | 114,869          | 103,014          |
|   | -----            | -----            |
| Total current liabilities . . . . .   | 313,070          | 275,744          |
| Convertible subordinated debentures . . . . .   | 40,464           | 58,646           |
| Deferred income taxes . . . . .   | 23,570           | 17,884           |
| Commitments and contingent liabilities  |                  |                  |
| Shareholders' equity:   |                  |                  |
| Preferred stock, \$.10 par value;<br>Authorized: 5,000 shares<br>Outstanding: None . . . . .  | --               | --               |
| Common stock, \$.10 par value;<br>Authorized: 95,000 shares<br>Outstanding: 46,314 shares at<br>April 1 and 44,895 shares<br>at June 30 . . . . . | 4,631            | 4,490            |
| Additional paid-in capital . . . . .  | 299,067          | 283,475          |
| Retained earnings . . . . .   | 97,196           | 274              |
|   | -----            | -----            |
| Total shareholders' equity . . . . .  | 400,894          | 288,239          |
|   | -----            | -----            |
| Total liabilities and shareholders' equity .  | \$777,998        | \$640,513        |
|   | =====            | =====            |

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

WESTERN DIGITAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

|  | NINE-MONTH PERIOD ENDED |                   |
|--|-------------------------|-------------------|
|  | APRIL 1,<br>1995        | MARCH 26,<br>1994 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                         |                   |
| Net income . . . . .   | \$ 96,922               | \$ 35,837         |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                         |                   |
| Depreciation and amortization . . . . .  | 31,914                  | 37,668            |
| Changes in current assets and liabilities:   |                         |                   |
| Accounts receivable . . . . .  | (54,411)                | (26,077)          |
| Inventories . . . . .  | (14,167)                | 29,903            |
| Prepaid expenses . . . . .   | (13,332)                | (2,346)           |
| Accounts payable and accrued expenses . . . . .  | 37,326                  | 37,244            |
| Intangible and other assets . . . . .  | (11,794)                | (2,563)           |
| Deferred income taxes . . . . .  | 5,686                   | (1,287)           |
| Net cash provided by operating activities . . . . .  | 78,144                  | 108,379           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                         |                   |
| Increase in short-term investments . . . . .   | (91,619)                | --                |
| Capital expenditures, net . . . . .  | (38,843)                | (13,337)          |
| Proceeds from the sale of facility . . . . .   | --                      | 110,677           |
| Net cash provided by (used for) investing activities . . . . .                               | (130,462)               | 97,340            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                         |                   |
| Repayment of debt . . . . .  | --                      | (146,346)         |
| Proceeds from stock offering, net . . . . .  | --                      | 73,293            |
| Repurchase of common stock . . . . .   | (10,822)                | --                |
| Exercise of stock options and warrants . . . . .   | 8,373                   | 6,893             |
| Net cash used for financing activities . . . . .   | (2,449)                 | (66,160)          |
| Net increase (decrease) in cash and cash equivalents . . . . .                               | (54,767)                | 139,559           |
| Cash and cash equivalents, beginning of period . . . . .                                     | 243,484                 | 33,837            |
| Cash and cash equivalents, end of period . . . . .   | \$ 188,717              | \$ 173,396        |
| <b>SUPPLEMENTAL DISCLOSURES:</b>   |                         |                   |
| Cash paid during the period for:   |                         |                   |
| Interest . . . . .   | \$ 2,703                | \$ 4,889          |
| Income taxes . . . . .   | 5,021                   | 1,419             |

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

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accounting policies followed by the Company are set forth in Note 1 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 1994.

All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Similar investments with original maturities beyond three months and less than twelve months are considered short-term investments and are carried at cost, which approximates market.

2. Primary earnings per share amounts are based upon the weighted average number of shares and dilutive common stock equivalents for each period presented. Fully diluted earnings per share additionally reflect dilutive shares assumed to be issued upon conversion of the Company's convertible subordinated debentures.

3. Inventories comprised the following:

|   | APRIL 1,<br>1995 | JUNE 30,<br>1994 |
|---|------------------|------------------|
|   | -----            | -----            |
|   | (in thousands)   |                  |
| Finished goods . . . . .                | \$28,958         | \$27,847         |
| Work in process . . . . .               | 36,267           | 32,178           |
| Raw materials and component parts . . . | 28,517           | 19,550           |
|   | -----            | -----            |
|   | \$93,742         | \$79,575         |
|   | =====            | =====            |

4. During the nine months ended April 1, 1995, approximately \$18.2 million of the Company's 9% convertible subordinated debentures, due 2014, were converted into 1,258,266 shares of the Company's common stock.

The Company repurchased 805,000 shares of its common stock in the open market at a cost of approximately \$11 million.

5. On November 8, 1994, the Company entered into a patent cross-license agreement with International Business Machines Corporation ("IBM"). The license granted from IBM covers the Company's entire product line. Under the agreement, the Company will make a series of payments to IBM. The payments are not expected to have a material impact on the Company.

6. In the opinion of management, all adjustments necessary to fairly state the results of operations for the three and nine months ended April 1, 1995 and March 26, 1994 have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 1994.

## ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

Revenue for the personal storage group ("PSG"), the Company's hard drive business targeted at desktop and portable personal computer applications, totaled \$481.2 million in the third quarter of 1995, a decrease of \$18.6 million or 4% from the second quarter of 1995. PSG revenue was impacted in the third quarter of 1995 by an industry-wide shortage of certain component parts, which limited the Company's ability to increase unit shipments from the second quarter. Average selling prices ("ASPs") declined approximately 11% from the second quarter as the Company shipped a greater proportion of its units to certain new OEM customers, which resulted in a higher concentration of lower capacity drives sold during the quarter. Revenue for PSG for the three and nine months ended April 1, 1995 increased \$93.9 million or 24% and \$432.4 million or 45%, respectively, over the corresponding periods of the prior year. These increases were the result of a 33% and 55% increase in the volume of drives shipped over the corresponding three and nine month periods, respectively, partially offset by a decline in ASPs.

Revenue for microcomputer products ("MCP") totaled \$48.1 million in the third quarter of 1995, down \$4.1 million, or 8% from the second quarter of 1995, primarily due to a decrease in multimedia product revenue, partially offset by higher sales of input/output products. Revenue for MCP for the three and nine months ended April 1, 1995 increased \$14.5 million or 43% and \$36 million or 31%, respectively, as compared with the corresponding periods of the prior year, reflecting increased revenue across all products lines.

|              | Gross Profit Margin      |          |         | Nine-Month   |         |
|--------------|--------------------------|----------|---------|--------------|---------|
|              | Three-Month Period Ended |          |         | Period Ended |         |
|              | 4/1/95                   | 12/31/94 | 3/26/94 | 4/1/95       | 3/26/94 |
| PSG          | 14.0%                    | 17.4%    | 21.2%   | 16.7%        | 18.3%   |
| MCP          | 43.2%                    | 42.0%    | 34.8%   | 41.5%        | 31.1%   |
| Consolidated | 16.7%                    | 19.8%    | 22.3%   | 19.1%        | 19.8%   |

PSG gross margin for the three months ended April 1, 1995 decreased approximately three and seven percentage points from the second quarter of 1995 and the third quarter of 1994, respectively. PSG gross margin for the nine months ended April 1, 1995 decreased by approximately two percentage points from the corresponding period of the prior year. The decreases in gross margin resulted from the higher concentration of lower capacity drives sold during the quarter, reflecting the shift in customer mix, a decline in ASPs, which were not fully offset by reductions in product costs, and component shortages. MCP gross margin for the third quarter of 1995 increased approximately one percentage point from the immediately preceding quarter, primarily due to a change in the mix of products sold. MCP gross margin for the three and nine month periods of the current fiscal year increased approximately eight and 10 percentage points, respectively, from the corresponding periods of the prior year. The improvements in MCP gross margins were primarily attributable to the cost benefits realized from selling the wafer fabrication facility during 1994, which reduced product costs.

## ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Research and development expense ("R&D") for the third quarter of 1995 increased approximately \$2.6 million or 8% from the second quarter of 1995. R&D expense for the three and nine months ended April 1, 1995 increased \$6 million or 22% and \$9.1 million or 11%, respectively, as compared with the corresponding periods of the prior year. These increases were primarily attributable to planned expenditures to support new product introductions for the current fiscal year and to support its high performance storage product development activities.

Selling, general and administrative ("SG&A") expense for the three months ended April 1, 1995 increased \$3.4 million or 11% from the preceding quarter, primarily due to higher royalty expense in the current quarter. SG&A expense for the three and nine month periods of the current year increased \$2.1 million or 7% and \$15.6 million or 19%, respectively, as compared with the corresponding three and nine month periods of 1994. These increases are primarily the result of increased selling, marketing and other related expenses in support of higher revenue levels and higher variable compensation plan accruals.

Interest and other income for the current quarter was \$2.4 million, as compared with \$2.7 million in the preceding quarter and net interest expense of \$.7 million in the third quarter of 1994. Interest and other income was \$8.1 million for the nine months ended April 1, 1995, an improvement of \$14.4 million over net interest expense in the corresponding period of the prior year. The decrease in interest and other income over the immediately preceding quarter is primarily due to a reduction in interest expense as a result of the conversion of \$15.6 million of 9% convertible subordinated debentures into common stock during the current quarter. The improvement over the prior year is the result of significantly lower levels of debt outstanding and higher average cash balances.

## FINANCIAL CONDITION

Cash and short-term investments totaled \$280.3 million at April 1, 1995 as compared with \$243.5 million at June 30, 1994. Cash flows from operations were \$78.1 million, with cash flows from earnings, depreciation, and an increase in current liabilities being offset by cash used to fund increased receivables and inventories. Capital additions for the first nine months of 1995 totaled \$38.8 million and were incurred primarily for increased disk drive manufacturing and wafer testing capacity. Approximately \$11 million was also used to repurchase 805,000 shares of the Company's common stock in the open market.

Notwithstanding the significant improvements in financial position realized over the past nine months, the ability of the Company to sustain its improved working capital management and to continue operating profitably is dependent upon a number of factors including competitive conditions in the marketplace, general economic conditions, the efficiency of the Company's manufacturing operations and the timely development and introduction of new products which address market needs.

PART II. OTHER INFORMATION

ITEM 6. Exhibits and reports on Form 8-K.

(a) Exhibits:

10.1.1 The Western Digital Corporation Amended and Restated Employee Stock Option Plan.

10.2.1 The Western Digital Corporation Stock Option Plan for Non-Employee Directors.

11 Computation of Per Share Earnings.

27 Financial Data Schedule

(b) Reports on Form 8-K:

None

SIGNATURES

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

WESTERN DIGITAL CORPORATION  
Registrant

/s/ Scott Mercer

-----  
D. Scott Mercer  
Executive Vice President,  
Chief Financial and Administrative Officer

Date: May 15, 1995

## EXHIBIT INDEX

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION<br>-----   | SEQUENTIALLY<br>NUMBERED<br>PAGE<br>----- |
|----------------------------|--|---|
| 10.1.1                     | The Western Digital Corporation Amended and Restated<br>Employee Stock Option Plan . . . . . |   |
| 10.2.1                     | The Western Digital Corporation Stock Option Plan for<br>Non-Employee Directors . . . . .    |   |
| 11                         | Computation of Per Share Earnings . . . . .  |   |
| 27                         | Financial Data Schedule . . . . .  |   |

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 11,450,000 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 NASDAQ on such date, or (c) if the Common Stock is not then listed on an exchange or quoted on NASDAQ, an amount determined in good faith by the Administrator. The Administrator may, with the consent of an optionee, amend the terms of any option to provide that the exercise price of the shares remaining subject to the option shall be reestablished at a price not less than 100% of the Fair Market Value of the Company's Common Stock on the effective date of the amendment; provided, however, that the number of shares of Common Stock subject to options which may be amended to reduce the exercise price to the Fair Market Value as of the date of such amendment (pursuant to this Section 6.4 or any other provision of this Plan) shall not exceed 5% of the sum of (i) the number of shares which are added to the shares authorized for issuance under

the Plan after September 1, 1994; (ii) the number of shares subject to options which were outstanding (i.e., granted but unexercised) as of September 1, 1994 under the Plan; and (iii) the number of shares available for future grant under the Plan as of September 1, 1994. No modification of any other term or provision of any option that is amended in accordance with the foregoing shall be required.

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 No Transfer of Option. 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 qualified domestic relations order or, in the discretion of the Administrator and under circumstances that would not adversely affect the interests of the Company, pursuant to a nominal transfer that does not result in a change in beneficial ownership. 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, (i) no options owned by an optionee subject to Section 16 of the Exchange Act may be assigned or transferred in any manner inconsistent with Rule 16b-3, and (ii) 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). 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.

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As approved by the Company's stockholders at its 1994 annual meeting.

Subsequent Amendments Incorporated Above:

6.8 No Transfer of Option. To clarify the Company's intention as to the transferability of incentive stock options and to make the permissive transfer provisions subject to the requirements of Section 422. 3/23/95

WESTERN DIGITAL CORPORATION  
STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I

GENERAL

1. ADOPTION AND AMENDMENTS. This Western Digital Corporation Stock Option Plan for Non-Employee Directors (the "Plan") was adopted by the Board of Directors of Western Digital Corporation (the "Company") as of May 15, 1985, the 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 of Directors 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 (the "1987 Annual Meeting"). Amendment No. 3 to the Plan was approved by the Board of Directors without shareholder approval on November 19, 1987. Amendment No. 4 to the Plan was adopted by the Board of Directors 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 of Directors 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 of Directors 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 of the Plan was approved by the Board of Directors without shareholder approval on May 23, 1991.

2. PURPOSE. This Plan is designed to promote the interests of the Company and its shareholders by attracting and retaining highly qualified independent directors through investment interests in the Company's future success.

3. ADMINISTRATION. The Plan shall be administered by the Company, which shall have the power to construe the Plan, to determine all questions arising thereunder, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and to otherwise carry out the terms of the Plan. The interpretation and construction by the Company of any provisions of the Plan or of any option granted under it shall be final. Notwithstanding the foregoing, the Company shall have no authority or discretion as to the persons eligible to receive options granted under the Plan, or the number of shares covered by options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

4. ELIGIBLE DIRECTORS. A person shall be an "Eligible Director" with respect to any option to be granted to him under the Plan if, at the time provided for the option's grant, he is a duly elected or appointed member of the Company's Board of Directors, but is not then otherwise an employee of the Company or any of its subsidiaries and has not been an employee of the Company or any subsidiary since the beginning of the Company's preceding fiscal year.

5. GRANTS OF INITIAL OPTIONS. Each Eligible Director on the effective date of the Plan, as of that date, and each Eligible Director who is not a director on the Plan's effective date, as of the effective date of his first appointment to the Board of Directors or first election as a director by the shareholders, whichever is earlier, shall receive a one-time option to purchase 20,000 shares of the Company's Common Stock under the Plan (an "Initial Option"), subject to adjustment as provided in Article III hereof. Pursuant to the terms of Amendment No. 1 to the Plan, certain holders of Initial Options to purchase 20,000 shares of Common Stock exchanged such Initial Options for Initial Options to purchase 14,150 shares of Common Stock having lower exercise prices (the "Exchanged Initial Options").

6. (a) GRANTS OF ADDITIONAL OPTIONS. Six months after any exercise or termination, following the 1987 Annual Meeting, of an Initial Option (other than an Exchanged Initial Option) or an option granted under this paragraph (an "Additional Option") held by an Eligible Director, such Eligible Director shall automatically be granted an Additional Option to purchase a number of shares equal to the number of shares purchased upon such

option exercise or the number of shares subject to the unexercised portion of the terminated option, as the case may be. Six months after any exercise or termination, following the 1987 Annual Meeting, of an Exchanged Initial Option held by an Eligible Director, such Eligible Director shall automatically be granted an Additional Option to purchase a number of shares which represents the same proportion of 20,000 shares as the proportion determined by dividing the number of shares purchased upon such exercise, or the number of shares subject to the unexercised portion of the terminated option, as the case may be, by the total number of shares subject to purchase at any time before or after the 1987 Annual Meeting upon exercises of that Exchanged Initial Option. For each exercise of an Initial Option or an Exchanged Initial Option before the date of the 1987 Annual Meeting by an Eligible Director who is reelected at the 1987 Annual Meeting, an Additional Option shall be granted to such director on the date of the 1987 Annual Meeting, or six months after the date of such exercise, whichever is later, entitling him to purchase a number of shares which represents the same proportion of 20,000 shares as the proportion determined by dividing the number of shares purchased upon such exercise by the total number of shares subject to purchase at any time before or after the 1987 Annual Meeting upon exercises of that Initial Option or Exchanged Initial Option. Any Eligible Director who has not been granted an Initial Option because of current or prior employment with the Company or its subsidiaries shall, six months after he first becomes an Eligible Director, be granted an Additional Option to purchase up to 20,000 shares of Common Stock. Notwithstanding any other provisions of the Plan to the contrary, the maximum number of shares of the Company's Common Stock which may be issued upon the exercise of all Additional Options granted to any director (excluding any option granted pursuant to the preceding sentence of this paragraph) shall not exceed 30,000 shares.

(b) GRANTS OF "1989 OPTIONS". In addition to his Initial Options and Additional Options, each Eligible Director elected at the 1989 Annual Meeting shall be granted, effective the date of the 1989 Annual Meeting, a one-time option to purchase 10,000 shares of the Company's Common Stock under the Plan, subject to adjustment as provided in Article III hereof.

7. SHARES OF COMMON STOCK SUBJECT TO THE PLAN. The shares that may be issued under the Plan shall be authorized and unissued shares of the Company's Common Stock. The aggregate number of shares which may be issued under the Plan shall not exceed 800,000 shares of Common Stock, unless an adjustment is required in accordance with Article III.

8. AMENDMENT OF THE PLAN. The Board of Directors 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, without further shareholder approval the Plan may not be amended so as to 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 designation in Section 4 of Article I of the class of persons eligible to receive options under the Plan, provide for the grant of options having an option price per share less than the fair market value (as defined in Section 13 of this Article I) on the date of grant, or extend the final date upon which options may be granted under the Plan.

9. TERM OF PLAN. Options may be granted under the Plan until May 15, 2005, the date of termination of the Plan. Notwithstanding the foregoing, each option 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.

10. 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 regulatory body, 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.

11. NONASSIGNABILITY. No option granted under the Plan shall be assignable or transferable by the grantee except by will or by the laws of descent and distribution. During the lifetime of the optionee, the option shall be exercisable only by the optionee, and no other person shall acquire any rights therein.

12. WITHHOLDING TAXES. Whenever shares of Common Stock are to be issued under the Plan, the Company shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares.

13. DEFINITION OF "FAIR MARKET VALUE". For purposes of the Plan, the term "fair market value," when used in reference to the value of a share of the Company's Common Stock on the date an option is granted under the Plan, shall be: (a) if the Common Stock is listed on an established stock exchange or exchanges, the mean between the highest and lowest sale prices of the Common Stock quoted in the Transactions Index of each such exchange as averaged with such mean price as reported on any and all other exchanges, as published in "The Wall Street Journal" and determined by the Company, or, if no sale price was quoted in any such Index for such date, then as of the next preceding date on which such a sale price was quoted, provided that the mean on such preceding date is not less than 100% of the fair market value of the Common Stock on the date the option is granted; 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 NASDAQ on such date; or, (c) if the Common Stock is not then listed on an exchange or quoted on NASDAQ, an amount determined in good faith by the Company.

## ARTICLE II STOCK OPTIONS

1. GRANT OF STOCK OPTIONS. Grants of stock options shall be made under the Plan in accordance with all the terms and conditions contained herein. Each option granted under the Plan shall be evidenced by an option agreement duly executed on behalf of the Company and by the director to whom such option is granted, which option agreements may but need not be identical and shall comply with and be subject to the terms and conditions of the Plan. Any option agreement may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Company.

2. TERM OF OPTIONS AND EFFECT OF TERMINATION. Notwithstanding any other provision of the Plan, no options 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 any such option which have not been issued pursuant to the 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.

3. TERMS AND CONDITIONS OF OPTIONS. Options granted pursuant to the Plan shall be evidenced by agreements in such forms as the Company shall from time to time determine, which agreements shall comply with the following terms and conditions:

(a) Each option agreement shall state the number of shares to which the option pertains.

(b) Each option agreement shall state the option price per share (or the method by which such price shall be computed) which shall be equal to 100% of the fair market value (as determined under Section 13 of Article I) of a share of the Common Stock on the date such option is granted.

(c) The option price shall be payable upon the exercise of an option in the legal tender of the United States or by transferring to the Company for redemption shares of Common Stock of the Company (either previously owned shares or option shares currently exercisable) at their fair market value (determined in the manner provided in Section 13 of Article I as of the date provided in Section 3(d) of this Article II). Shares of Common Stock transferred to the Company upon exercise of an option shall not increase the number of shares

available for issuance under the Plan. Upon receipt of payment, the Company shall deliver to the optionee (or person entitled to exercise the option) a certificate or certificates for the shares of Common Stock to which the option pertains.

(d) To the extent that an optionee has the right to exercise an option and purchase shares pursuant thereto, 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. If shares of Common Stock of the Company are used in part or full payment for the shares to be acquired upon exercise of the option, such shares shall be valued for the purpose of such exchange as of the date of exercise of the option in accordance with the provisions of Section 3(c) of this Article II. Any certificate(s) for shares of outstanding Common Stock 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) (with the signature thereon guaranteed). 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 shares covered thereby.

(e) Initial Options granted under the Plan as of the effective date of the Plan became exercisable with respect to 10,000 shares on November 16, 1985; 5,000 shares on May 16, 1986; and 5,000 shares on May 16, 1987. Subject to Section 5 of Article I, Initial Options granted on the effective date of a director's appointment to the Board shall become exercisable in installments of 10,000 shares on the later of (i) the date of such director's election by the shareholders or (ii) the date six months after the date of such grant (the "Initial Exercise Date"); 5,000 shares on the date six months after the Initial Exercise Date; and 5,000 shares on the date 18 months after the Initial Exercise Date. Each Exchanged Initial Option became exercisable with respect to 7,075 shares of Common Stock on November 13, 1986 and 3,538 shares on December 6, 1986, and shall become exercisable with respect to 3,537 shares on December 6, 1987. All other Initial Options granted under the Plan shall become exercisable in installments of 10,000 shares on the date six months after the date of such grant; 5,000 shares on the date of the first anniversary of such grant; and 5,000 shares on the date of the second anniversary of such grant. To the extent an Initial Option or Exchanged Initial Option is so exercisable, and is not earlier terminated, it may generally be exercised in whole or in part at any time or from time to time until it expires ten years after the date of its grant. If an option is exercised in part, the unexercised portion of the option shall continue to be held by the optionee and may thereafter be exercised as herein provided. In the event that a holder of an Initial Option shall cease to be a director of the Company for any reason, any options held by such director shall be exercisable, to the extent they were exercisable at the date he ceased to be a director, for a period of one year after such date, and shall then terminate.

(f) Each Additional Option granted under the Plan shall first become exercisable with respect to 20% of the underlying shares at the end of six months after the date of its grant, or one year after the date of the 1987 Annual Meeting in the case of an Additional Option granted under Section 6 of Article I as a result of the exercise of an Initial Option or an Exchanged Initial Option before that meeting, and with respect to an additional 5% of the underlying shares at the end of each of the next 16 three-month periods thereafter. To the extent an Additional Option is so exercisable and it is not earlier terminated, it may generally be exercised in whole or in part at any time or from time to time until it expires 5-1/2 years after the date of grant, or six years after the date of the 1987 Annual Meeting in the case of an Additional Option granted as a result of the exercise of an Initial option or an Exchanged Initial Option before the date of the 1987 Annual Meeting. If the holder of an Additional Option shall cease to be a director of the Company, his option shall be exercisable, to the extent it is exercisable at the date he ceases to be a director, for a period of one year after that date if he ceases to be a director because of death or permanent disability, or for a period of three months after that date if he ceases to be a director for any other reason.

(g) Each 1989 Option granted under the Plan shall first become exercisable on a cumulative basis with respect to 25% of the total number of shares covered thereby at any time after one year from the date the option is granted and with respect to an additional 6.25% of such total number of shares at any time after the end of each of the next 12 three-month periods thereafter. To the extent that a 1989 Option is so exercisable and is not earlier terminated, it may generally be exercised in whole or in part at any time or from time to time until it expires ten



years after the date of its grant. If the holder of a 1989 Option ceases to be a director of the Company, the 1989 Option shall be exercisable, to the extent it is exercisable on the date such person ceases to be a director, for a period of one year after that date if such person ceases to be a director because of death or permanent disability, or for a period of six months after that date if such person ceases to be a director for any other reason.

(h) Subject to Subsections 3(e), 3(f), and 3(g) of this Article II, 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 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 Company 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 will or the applicable law of descent and distribution.

### ARTICLE III RECAPITALIZATIONS AND REORGANIZATIONS

1. ANTI-DILUTION ADJUSTMENTS. The number of shares of Common Stock covered by the Plan, the number of shares and price per share of each outstanding option, and the number of shares subject to each grant provided for in Article II, Section 3 hereof shall be 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 Common Stock effected without receipt of consideration by the Company.

2. CORPORATE TRANSACTIONS. If the Company shall be the surviving corporation in any merger or consolidation, each outstanding option shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that option would have been entitled. A dissolution or liquidation of the Company, or a merger or consolidation in which the Company is not the surviving corporation, shall cause each outstanding option to terminate, unless the agreement of merger or consolidation shall otherwise provide; provided that, in the event such dissolution, liquidation, merger or consolidation will cause outstanding options to terminate, each optionee shall have the right immediately prior to such dissolution, liquidation, merger or consolidation to exercise his option or options in whole or in part without regard to any limitations on the exercisability of such option or options contained in Sections (e), (f), and (g) of Section 3 of Article II, other than the expiration dates of the options, provided that no Additional Options shall be granted upon the exercise of an option pursuant to this sentence.

3. 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 Company, 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 or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

### ARTICLE IV MISCELLANEOUS PROVISIONS

1. RIGHTS AS A SHAREHOLDER. An optionee or a transferee of an option shall have no rights as a shareholder with respect to any shares covered by the option until the date of the receipt of payment (including any amounts required by the Company pursuant to Section 12 of Article I) by the Company. No adjustment shall be made as to any option for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to such date, except as provided in Article III.

2. PURCHASE FOR INVESTMENT. Unless the shares of Common Stock to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933 as now in force or hereafter amended, the Company shall be under no obligation to issue any shares of Common Stock covered

by an option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company which is 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 is acquiring the shares of Common Stock issued to him pursuant to such exercise of the option for his own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of Common Stock, and that he 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 of 1933, or any other applicable law, and that if shares of Common Stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued.

3. OTHER PROVISIONS. The option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the option or restrictions required by any applicable securities laws, as the Company shall deem advisable.

# # #

Restated 8/92  
Amended 11/10/94 - Article 9, Term of Plan

WESTERN DIGITAL CORPORATION  
COMPUTATION OF PER SHARE EARNINGS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

|   | THREE MONTHS ENDED |                   | NINE MONTHS ENDED |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | APRIL 1,<br>1995   | MARCH 26,<br>1994 | APRIL 1,<br>1995  | MARCH 26,<br>1994 |
| <b>PRIMARY</b>  |                    |                   |                   |                   |
| Net income . . . . .  | \$19,650           | \$28,448          | \$96,922          | \$35,837          |
|   | =====              | =====             | =====             | =====             |
| Weighted average number of common<br>shares outstanding during the period . .                                     | 46,716             | 41,575            | 45,765            | 37,525            |
| Common stock equivalents related to<br>dilutive options and warrants . . . . .                                    | 1,870              | 2,905             | 2,079             | 1,982             |
|   | -----              | -----             | -----             | -----             |
| Total shares . . . . .  | 48,586             | 44,480            | 47,844            | 39,507            |
|   | =====              | =====             | =====             | =====             |
| Net income per share . . . . .  | \$ .40             | \$ .64            | \$ 2.03           | \$ .91            |
|   | =====              | =====             | =====             | =====             |
| <b>FULLY DILUTED</b>  |                    |                   |                   |                   |
| Net income . . . . .  | \$19,650           | \$28,448          | \$96,922          | \$35,837          |
| Add back: interest expense, net of<br>income tax effect, applicable to<br>convertible subordinated debentures . . | 813                | 1,168             | 3,036             | 3,504             |
|   | -----              | -----             | -----             | -----             |
|   | \$20,463           | \$29,616          | \$99,958          | \$39,341          |
|   | =====              | =====             | =====             | =====             |
| Weighted average number of common<br>shares outstanding during the period . .                                     | 46,716             | 41,575            | 45,765            | 37,525            |
| Common stock equivalents related to<br>dilutive options and warrants . . . . .                                    | 1,870              | 3,214             | 2,080             | 3,318             |
| Shares issued upon proforma<br>conversion of convertible subordinated<br>debentures . . . . .                     | 2,800              | 4,074             | 3,519             | 4,074             |
|   | -----              | -----             | -----             | -----             |
| Total shares . . . . .  | 51,386             | 48,863            | 51,364            | 44,917            |
|   | =====              | =====             | =====             | =====             |
| Net income per share . . . . .  | \$ .40             | \$ .61            | \$ 1.95           | \$ .88            |
|   | =====              | =====             | =====             | =====             |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q FOR THE QUARTERLY PERIOD ENDED APRIL 1, 1995.

1,000  
U.S. DOLLARS

|         |             |           |
|---------|-------------|-----------|
| 9-MOS   |             |           |
|         | JUL-01-1995 |           |
|         | JUL-01-1994 |           |
|         | APR-01-1995 |           |
|         | 1           |           |
|         |             | 188,717   |
|         |             | 91,619    |
|         |             | 255,923   |
|         |             | 10,761    |
|         |             | 93,742    |
|         | 656,250     |           |
|         |             | 203,292   |
|         |             | 120,428   |
|         | 777,998     |           |
| 313,070 |             |           |
|         |             | 40,464    |
|         |             | 4,631     |
|         | 0           |           |
|         |             | 0         |
|         |             | 396,263   |
| 777,998 |             |           |
|         |             | 1,545,831 |
|         | 1,545,831   |           |
|         |             | 1,250,656 |
|         |             | 1,250,656 |
|         |             | 189,279   |
|         |             | 0         |
|         | (8,106)     |           |
|         |             | 114,002   |
|         |             | 17,080    |
| 96,922  |             |           |
|         |             | 0         |
|         |             | 0         |
|         |             | 0         |
|         |             | 96,922    |
|         |             | 2.03      |
|         |             | 1.95      |