UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 28, 2001.

OR

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

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (949) 672-7000
REGISTRANT'S WEB SITE: http://www.westerndigital.com

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 October 26, 2001, is 186,976,375.

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Item 1. *FINANCIAL STATEMENTS*

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE-MONTH PERIOD ENDED	
	SEP. 29, 2000	SEP. 28, 2001
Revenues, net	$424,366	$440,943
Costs and expenses:		
Cost of revenues	398,430	384,936
Research and development	32,001	31,541
Selling, general and administrative	29,523	28,636
Total costs and expenses	459,954	445,113
Operating loss	(35,588)	(4,170)
Net interest and other income (expense)	(1,632)	156
Loss from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	(37,220)	(4,014)
Discontinued operations:		
Loss from discontinued operations	(8,045)	—
Gain on disposal of discontinued segments	—	24,532
Extraordinary gain from redemption of debentures	11,243	—
Cumulative effect of change in accounting principle	(1,504)	—
Net income (loss)	$ (35,526)	$ 20,518
Basic and diluted income (loss) per common share:		
Loss from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	$ (.25)	$ (.02)
Discontinued operations		
Loss from discontinued operations	(.05)	—
Gain on disposal of discontinued segments	—	.13
Extraordinary gain	.07	—
Cumulative effect of change in accounting principle	(.01)	—
	$ (.24)	$ .11
Common shares used in computing per share amounts:		
Basic and diluted	148,044	186,635

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JUN. 29, 2001	SEP. 28, 2001
		(UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 167,582	$ 200,582
Accounts receivable, less allowance for doubtful accounts of $13,298 at June 29, 2001 and $12,430 at September 28, 2001	127,767	212,085
Inventories	78,905	76,343
Prepaid expenses and other current assets	11,455	11,107
Total current assets	385,709	500,117
Property and equipment at cost, net	106,166	107,759
Other assets, net	15,777	11,569
Total assets	$ 507,652	$ 619,445
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 224,544	$ 319,015
Accrued expenses	82,741	80,943
Accrued warranty	30,943	30,297
Net liabilities of discontinued operations	2,118	—
Total current liabilities	340,346	430,255
Other liabilities	38,629	38,091
Convertible debentures	112,491	113,974
Minority interest	9,383	9,470
Shareholders’ equity:		
Preferred stock, $.01 par value;		
Authorized: 5,000 shares Outstanding: None	—	—
Common stock, $.01 par value; Authorized: 225,000 shares Outstanding: 192,800 shares at June 29, 2001 and September 28, 2001	1,928	1,928
Additional paid-in capital	731,694	729,320
Accumulated deficit	(581,720)	(561,202)
Accumulated other comprehensive income	3,112	1,581
Treasury stock-common stock at cost: 6,420 shares at June 29, 2001 and 5,988 shares at September 28, 2001	(148,211)	(143,972)
Total shareholders’ equity	6,803	27,655
Total liabilities and shareholders’ equity	$ 507,652	$ 619,445

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

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WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

	THREE-MONTH PERIOD ENDED	
	SEP. 29, 2000	SEP. 28, 2001
Cash flows from operating activities:		
Net income (loss)	$ (35,526)	$ 20,518
Adjustments to reconcile net loss to net cash used for operating activities of continuing operations:		
Gain on sale of discontinued segments	—	(24,532)
Loss from discontinued operations	8,045	—
Extraordinary gain on debenture redemptions	(11,243)	—
Depreciation and amortization	13,714	11,260
Non-cash interest expense	2,856	1,583
Other	—	2,000
Changes in assets and liabilities:		
Accounts receivable	35,633	(84,318)
Inventories	(6,286)	2,562
Prepaid expenses and other assets	(985)	1,954
Accrued warranty	(6,159)	(2,025)
Accounts payable and accrued expenses	(54,045)	80,617
Other	(3,773)	(1,638)
Net cash provided by (used by) continuing operations	(57,769)	7,981
Cash flows from investing activities:		
Capital expenditures, net	(10,541)	(12,013)
Proceeds from sales of marketable equity securities	14,979	—
Net cash provided by (used for) investing activities of continuing operations	4,438	(12,013)
Cash flows from financing activities:		
Proceeds from ESPP shares issued and stock option exercises	2,970	1,562
Common stock issued for cash	42,081	—
Proceeds from minority investment in subsidiary	—	1,000
Net cash provided by financing activities of continuing operations	45,051	2,562
Net cash provided by (used for) discontinued operations	(8,792)	34,470
Net increase (decrease) in cash and cash equivalents	(17,072)	33,000
Cash and cash equivalents, beginning of period	184,021	167,582
Cash and cash equivalents, end of period	$166,949	$200,582
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 162	$ 689
Cash paid during the period for interest	32	229

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

WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accounting policies followed by the Company are set forth in Note 1 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K as of and for the year ended June 29, 2001.

In the opinion of management, all adjustments necessary to fairly state the condensed consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended June 29, 2001.

The Company has a 52 or 53-week fiscal year and each fiscal month ends on the Friday nearest to the last day of the calendar month. All general references to years relate to fiscal years unless otherwise noted.

Certain prior periods' amounts have been reclassified to conform to the current period presentation as a result of the adoption of Staff Accounting Bulletin 101 and the discontinuance of the Company's Connex and SANavigator businesses.

2. Supplemental Financial Statement Data (in thousands)

	JUN. 29, 2001	SEP. 28, 2001
Inventories:		
Finished goods	$48,123	$39,452
Work in process	8,888	27,141
Raw materials and component parts	21,894	9,750
	$78,905	$76,343

	THREE-MONTH PERIOD ENDED	
	SEP. 29, 2000	SEP. 28, 2001
Net Interest and Other Income (Expense):		
Interest income	$ 1,841	$ 1,369
Interest and other expense	(3,091)	(2,130)
Realized investment losses	(738)	—
Minority interest in losses of consolidated subsidiary	356	917
	$(1,632)	$ 156

	THREE-MONTH PERIOD ENDED	
	SEP. 29, 2000	SEP. 28, 2001
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued for redemption of convertible debentures	$37,565	$—
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs	$48,808	$—

3. Loss per Share

As of September 29, 2000 and September 28, 2001, 19.9 and 29.1 million shares, respectively, relating to the possible exercise of outstanding stock options were not included in the computation of diluted loss per share. As of September 29, 2000 and September 28, 2001, an additional 6.6 and 4.0 million shares, respectively, issuable upon conversion of the convertible debentures were excluded from the computation of diluted loss per share. The effects of these items were not included in the computation of diluted loss per share as their effect would have been anti-dilutive to the basic loss per share from continuing operations.

4. Common Stock Transactions

During the three months ended September 29, 2000, the Company issued approximately 686,000 shares of its common stock in connection with Employee Stock Purchase Plan (“ESPP”) purchases and 181,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $3.0 million. During the three months ended September 28, 2001, the Company issued approximately 514,000 shares of its common stock in connection with ESPP purchases and 12,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of $1.6 million.

Under an existing shelf registration (the “equity facility”), the Company may issue shares of common stock to institutional investors for cash. Shares sold under the equity facility are at the market price of the Company’s common stock less a discount ranging from 2.75% to 4.25%. During the three months ended September 29, 2000, the Company issued 8.8 million shares of common stock under the equity facility for net cash proceeds of $42.1 million. As of September 28, 2001, the Company had $167.7 million remaining under the equity facility.

During the three months ended September 29, 2000, the Company issued 6.3 million shares of common stock to redeem a portion of its 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the “Debentures”) with a book value of $49.8 million, and an aggregate principal amount at maturity of $122.7 million. These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors. The redemptions resulted in an extraordinary gain of $11.2 million during the three months ended September 29, 2000. As of September 28, 2001, the book value of the remaining outstanding Debentures was $114.0 million and the aggregate principal amount at maturity was $265.9 million.

5. Credit Facility

The Company has a three-year Senior Credit Facility for its hard drive business, Western Digital Technologies, Inc. (“WDT”), which provides up to $125 million in revolving credit (subject to a borrowing base calculation), matures on September 20, 2003 and is secured by WDT’s accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of WDT, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. The Senior Credit Facility requires WDT to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the facility.

6. Investment in Marketable Securities

As of September 28, 2001, the Company owned approximately 1.2 million shares of Vixel Corporation (“Vixel”) common stock. The Company has identified these shares as “available for sale” under the provisions of SFAS 115, and accordingly, the shares were marked to market value. At September 28, 2001, accumulated other comprehensive income consisted of an unrealized gain of $1.6 million from these shares. The aggregate book value of the shares was $1.6 million as of September 28, 2001, and the investment was classified as current.

7. Other Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income (loss). The Company's other comprehensive income is comprised of unrealized gains and losses on marketable securities categorized as "available for sale" under SFAS 115. The components of total comprehensive income (loss) for the three months ended September 29, 2000 and September 28, 2001 were as follows (in millions):

	THREE-MONTH PERIOD ENDED	
	SEP. 29, 2000	SEP. 28, 2001
Net income (loss)	$(35.5)	$20.5
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale investments, net	7.5	(1.5)
Total comprehensive income (loss)	$(28.0)	$19.0

8. Business Segment

The Company's primary segment is its hard drive business, WDT. In addition, the Company formed new business ventures in 1999, 2000 and 2001. The Company's new business ventures have included Connex, Inc. ("Connex"), SANavigator, Inc. ("SANavigator"), SageTree, Inc. ("SageTree"), Keen Personal Media, Inc. ("Keen PM"), and Cameo Technologies, Inc. ("Cameo"). Connex was formed in 1999 to design and market network attached storage products. SANavigator was formed as a subsidiary of Connex in 2001 to develop and market storage area network ("SAN") management software. SageTree was formed in 2000 to design and market packaged analytical software and related services for supply chain and product lifecycle applications. Keen PM was formed in 2000 to develop and sell interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce. Cameo was formed in 2000 to develop technologies and services for delivering broadcast-quality video content to PC users. During the three months ended September 28, 2001, substantially all of the assets of Connex and SANavigator were sold and, accordingly, their operations were discontinued (See Note 9). The Company's chief operating decision maker uses the segment information for WDT and the Company's combined new business ventures to assess performance and to determine resource allocation. The continuing separate new business venture amounts do not meet the disclosure requirements of SFAS 131 and they have been combined and presented in an "all other" category, separate from the WDT segment results. General and corporate expenses of the Company are included in the WDT segment. The loss from discontinued operations of $8.0 million for the three months ended September 29, 2000 and the gain from the disposal of discontinued segments of $24.5 million for the three months ended September 28, 2001 have been excluded from the table below.

Segment information (in thousands):

	THREE-MONTH PERIOD ENDED SEP. 29, 2000			THREE-MONTH PERIOD ENDED SEP. 28, 2001		
	WDT	ALL OTHER	TOTAL	WDT	ALL OTHER	TOTAL
Revenues	$424,162	$ 204	$424,366	$440,406	$ 537	$440,943
Operating income (loss)	(27,529)	(8,059)	(35,588)	4,022	(8,192)	(4,170)
Total assets	492,825	14,827	507,652	610,048	9,397	619,445
Depreciation and amortization	12,724	990	13,714	10,775	485	11,260
Additions to property and equipment	9,537	1004	10,541	12,013	—	12,013

9. Discontinued Operations

On July 1, 2001, the Company decided to discontinue its Connex and SANavigator businesses. Connex and SANavigator were separate major lines of business and legal entities with separate facilities, operations, management teams, and classes of end-user customers from the Company's hard drive business. As such, the disposals have been accounted for as discontinued operations and, accordingly, the consolidated financial statements for the periods presented have been reclassified. On August 8, 2001 substantially all of the operating assets of Connex were sold to Quantum Corporation for cash proceeds of $11.0 million, and on September 21, 2001 substantially all of the operating assets of SANavigator were sold to McData Corporation for cash proceeds of $29.8 million. Approximately $4.1 million of the combined cash proceeds are held in escrow for one year pending expiration of customary indemnification periods and included in cash and cash equivalents on the accompanying balance sheet. As a result of these transactions, during the three months ended September 28, 2001 the Company recognized a gain of $24.5 million, net of costs incurred from the measurement date of July 1, 2001 through the end of the period to shutdown the businesses. At June 29, 2001, the net liabilities of discontinued operations consisted principally of individually immaterial amounts of inventories, fixed assets, accounts payable and accrued compensation. Revenues for the three months ended September 29, 2000 were $0.2 million for Connex and SANavigator combined.

10. Legal Proceedings

In 1992 Amstrad plc (“Amstrad”) brought suit against the Company in California State Superior Court, County of Orange, alleging that disk drives supplied to Amstrad by the Company in 1988 and 1989 were defective and caused damages to Amstrad of not less than $186 million. The suit also sought punitive damages. The Company denied the material allegations of the complaint and filed cross-claims against Amstrad. The case was tried, and in June 1999 the jury returned a verdict in favor of Western Digital. Amstrad has appealed the judgment. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In 1994 Papst Licensing (“Papst”) brought suit against the Company in federal court in California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchased from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In June 2000 Discovision Associates (“Discovision”) notified the Company in writing that it believes certain of the Company’s hard disk drive products may infringe certain of Discovision’s patents. Discovision has offered to provide the Company with a license under its patent portfolio. The Company is in discussion with Discovision regarding its claims. There is no litigation pending. The Company does not believe that the outcome of this matter will have a material adverse effect on the Company’s consolidated financial position, results of operations or liquidity.

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

On July 5, 2001, the Company (and its Malaysian subsidiary) filed suit against Cirrus Logic, Inc. (“Cirrus”) in California Superior Court for the County of Orange for breach of contract and other claims resulting from Cirrus’ role as a strategic supplier of read channel chips for the Company’s hard drives. The Company also stopped making payments to Cirrus for past deliveries of chips and terminated all outstanding purchase orders from Cirrus for such chips. The Company’s complaint alleges that Cirrus’ unlawful conduct caused damages in excess of any amounts that may be owing on outstanding invoices or arising out of any alleged breach of the outstanding purchase orders. On August 20, 2001, Cirrus filed an answer and cross-complaint. Cirrus denied the allegations contained in the Company’s complaint and asserted counterclaims against the Company for, among other things, the amount of the outstanding invoices and the Company’s alleged breach of the outstanding purchase orders. On October 9, 2001, the Court granted Cirrus’ Motion for Judgment on the Pleadings, with leave to amend, and on November 8, 2001, the Company filed its First Amended Complaint. The parties have begun discovery and expect that such discovery will continue for the next several months. Based on its initial investigation and the limited discovery done to date, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company’s consolidated financial position, results of operations or liquidity. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company’s subsidiaries may be required to pay damages and other expenses, which may have a material adverse effect on the Company’s consolidated financial position, results of operations or liquidity. In addition, the costs of prosecuting such litigation may be material, regardless of the outcome.

In the normal course of business, the Company receives and makes inquiries regarding possible intellectual property matters, including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to the Company. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of federal securities laws. The statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecasts," and the like. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. These statements appear in a number of places in this report and include statements regarding the intentions, plans, strategies, beliefs or current expectations of the Company with respect to, among other things:

- the financial prospects of the Company;
- the Company's financing plans;
- litigation and other contingencies potentially affecting the Company's financial position, operating results or liquidity;
- trends affecting the Company's financial condition or operating results;
- the Company's strategies for growth, operations, product development and commercialization; and
- conditions or trends in or factors affecting the computer, data storage, home entertainment or hard drive industry.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Readers are urged to carefully review the disclosures made by the Company concerning risks and other factors that may affect the Company's business and operating results, including those made under the captions "Risk factors related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly", in this report, as well as the Company's other reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

Overview

Western Digital is a longtime leader and one of the pioneers of the data storage industry. Through significant reorganization of its hard drive business in 1999 and 2000 the Company has become one of the most cost-effective producers of hard drives in the industry. During that time, the Company also established a framework to apply its data storage core competencies to emerging markets and expand beyond the traditional market for hard drives through new business ventures and market areas, while maintaining its core business.

The hard drive industry, the Company's core and primary business, is intensely competitive and has experienced a great deal of growth, entry and exit of competitors, and technological change over recent years. This industry is characterized by short product life cycles, dependence upon highly skilled engineering and other personnel, significant expenditures for product development and recurring periods of oversupply.

The Company continuously evaluates opportunities to apply its data storage core competencies to emerging markets and to expand beyond traditional markets for hard drives through new business ventures meeting certain predefined criteria. The Company's new business ventures have included Connex, Inc. (“Connex”), SANavigator, Inc. (“SANavigator”), SageTree, Inc. (“SageTree”), Keen Personal Media, Inc. (“Keen PM”) and Cameo Technologies, Inc. (“Cameo”). During the three months ended September 28, 2001, the Company discontinued the operations of both Connex and SANavigator, selling substantially all the assets of the two companies. The Company’s other new businesses have not yet generated significant revenue and the Company continues to evaluate their progress.

Results of Operations

Summary Comparison

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

	THREE- MONTH PERIOD ENDED	
	SEP 29, 2000	SEP 28, 2001
Revenues, net	100.0%	100.0%
Costs and expenses:		
Cost of revenues	93.9	87.3
Research and development	7.5	7.1
Selling, general and administrative	7.0	6.5
Total costs and expenses	108.4	100.9
Operating loss	(8.4)	(0.9)
Net interest and other income (expense)	(0.4)	0.0
Loss from continuing operations	(8.8)%	(0.9)%

The Company’s loss from continuing operations of $4.0 million for the three months ended September 28, 2001 decreased 89%, or $33.2 million, from the three months ended September 29, 2000. The decrease was due to a $31.5 million increase in operating income in the hard drive business and a $1.8 million decrease in interest and other expense, offset slightly by a $0.1 million increase in operating losses from new business ventures.

Consolidated revenues were $440.9 million for the three months ended September 28, 2001, an increase of 4%, or $16.6 million, from the three months ended September 29, 2000. Revenues from new business ventures were not material for all periods presented. The increase in consolidated revenues resulted from a 6% increase in unit shipments, partially offset by a 2% decrease in average selling prices (ASP’s).

Gross profit for the three months ended September 28, 2001 totaled $56.0 million, or 12.7% of revenue. This compares to a gross profit of $25.9 million, or 6.1% of revenue, for the three months ended September 29, 2000. The increase in the gross profit over the corresponding period of the prior year was primarily the result of cost reduction efforts and higher volume in the hard drive business, partially offset by lower ASP’s.

Research and development (“R&D”) expense and selling, general and administrative (“SG&A”) expense for the three months ended September 28, 2001 was $31.5 million and $28.6 million, respectively. This compares to slightly higher R&D expense and SG&A expense of $32.0 million and $29.5 million, respectively, for the three months ended September 29, 2000.

Net interest and other income (expense) for the three months ended September 28, 2001 was $0.2 million, compared to ($1.6) million for the three months ended September 29, 2000. The $1.8 million decrease in expense was primarily the result of lower interest expense due to redemptions during 2001 of the Company’s 5.25% zero coupon convertible debentures (the “Debentures”) and a $0.7 million loss on the disposition of certain investment securities during the three months ended September 29, 2000.

The Company did not record an income tax benefit in any periods presented as no additional loss carrybacks were available and management deemed it “more likely than not” that the deferred tax benefits generated would not be realized.

During the three months ended September 28, 2001, the Company decided to discontinue the operations of Connex and SANavigator and sold substantially all of the assets of these two businesses for a net gain of $24.5 million. Accordingly, the operating results of Connex and SANavigator for the three months ended September 29, 2000 and the net gain recognized on the sale of the businesses during the three months ended September 28, 2001 have been segregated from continuing operations and reported separately on the statements of operations as discontinued operations.

During the three months ended September 29, 2000, the Company issued 6.3 million shares of common stock in exchange for $122.7 million in face value of the Debentures (with a book value of $49.8 million). These redemptions were private, individually negotiated, non-cash transactions with certain institutional investors. As a result of the redemptions, the Company recognized an extraordinary gain of $11.2 million during the three months ended September 29, 2000.

Liquidity and Capital Resources

At September 28, 2001, the Company had cash and cash equivalents of $200.6 million as compared to $167.6 million at June 30, 2000. Net cash provided by continuing operations was $8.0 million during the three months ended September 28, 2001, as compared to net cash used for continuing operations of $57.8 million during the three months ended September 29, 2000. This $65.7 million improvement in cash provided by continuing operations consists of a $33.0 million improvement in the Company's operating results, net of non-cash items, and a $32.7 million decrease in cash used to fund working capital and other asset growth. The improvement in operating results was due to significantly better performance by the Company's hard drive business as a result of higher sales volume and improved cost management. The decrease in cash used to fund working capital and other asset growth is primarily due to a decrease in the conversion cycle. As the following chart indicates, the Company's cash conversion cycle, which represents the sum of the number of days sales outstanding ("DSO") and days inventory outstanding ("DIO") less days payable outstanding ("DPO"), was reduced by 5 days for the three months ended September 28, 2001 compared to the corresponding period of the prior year.

	THREE- MONTH PERIOD ENDED	
	SEP 29, 2000	SEP 28, 2001
Cash Conversion Cycle:		
Days Sales Outstanding	24	44
Days Inventory Outstanding	21	18
Days Payables Outstanding	(54)	(76)
	(9)	(14)

The decrease in the cash conversion cycle was due primarily to the increase in DPO's, which was the result of the Company's temporary extension of its payment terms with certain key vendors in order to manage cash in response to the increase in DSO's. In addition, DPO's increased as a result of outstanding payables to a vendor with which the Company is involved in an unresolved contract dispute. The increase in DSO's was the result of management's decision to eliminate certain cash discount programs to customers during the period. DIO's decreased due to improved sales and production linearity. The Company seeks to maintain a negative cash conversion cycle.

Other uses of cash during the three months ended September 28, 2001 included net capital expenditures of $12.0 million, primarily to upgrade the Company's desktop hard drive production capabilities and for normal replacement of existing assets. Other sources of cash during the period included $1.6 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases, and $1.0 million received by Keen PM from a minority investor.

During the three months ended September 29, 2000, other uses of cash included net capital expenditures of $10.5 million. Other sources of cash during that period included proceeds of $15.0 million received upon the sale of marketable equity securities, $42.1 million received upon issuance of 8.8 million shares of the Company's stock under the Company's equity facility, and $3.0 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

The Company has a three-year Senior Credit Facility for its hard drive business, Western Digital Technologies, Inc. ("WDT"), which provides up to $125 million in revolving credit (subject to a borrowing base calculation), matures on September 20, 2003 and is secured by WDT's accounts receivable, inventory, 65% of the stock in its foreign subsidiaries and other assets. At the option of WDT, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. The Senior Credit Facility requires WDT to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the facility.

Under an existing shelf registration (the "equity facility"), the Company may issue shares of common stock to institutional investors for cash. Shares sold under the equity facility are at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25%. During the three months ended September 29, 2000, the Company issued 8.8 million shares of common stock under the equity facility for net cash proceeds of $42.1 million. As of September 28, 2001, the Company had $167.7 million remaining under the equity facility.

The Company may continue to incur operating losses during 2002. However, at September 28, 2001, the Company had a cash and cash equivalent balance of $200.6 million, working capital of $69.9 million and shareholders' equity of $27.7 million. In addition, the Company has a Senior Credit Facility providing up to $125 million in revolving credit (subject to a borrowing base calculation). Furthermore, the Company has achieved significant reductions in manufacturing labor and overhead and operating expenses resulting from the sale in late 1999 of the Company's media operations, the closure in 2000 of the Company's two Singapore based manufacturing facilities and its Rochester design center, the disposal of its Connex and SANavigator businesses, and an overall reduction in worldwide headcount.

Based on the above factors, the Company believes its current cash and cash equivalent balances and its existing credit facility will be sufficient to meet its working capital needs through the foreseeable future. There can be no assurance that the Senior Credit Facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the headings "Risk factors related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly."

New Accounting Pronouncements

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

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

During October 2001 the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of SFAS 144 to have a material impact on its consolidated financial position, results of operations or liquidity.

Risk factors related to the hard drive industry in which we operate

Our operating results depend on our being among the first-to-market and first-to-volume with our new products.

To achieve consistent success with computer manufacturer customers we must be an early provider of next generation hard drives featuring leading technology and high quality. If we fail to:

- consistently maintain or improve our time-to-market performance with our new products
- produce these products in sufficient volume within our rapid product cycle
- qualify these products with key customers on a timely basis by meeting our customers' performance and quality specifications
- achieve acceptable manufacturing yields and costs with these products

then our market share would be adversely affected, which would harm our operating results.

Short product life cycles make it difficult to recover the cost of development.

Over the past few years hard drive areal density (the gigabytes of storage per disk) has increased at a much more rapid pace than previously experienced. The technical challenges of maintaining this pace are becoming more formidable, and the risk of not achieving the targets for each new generation of drives increases, which could adversely impact product manufacturing yields and schedules, among other impacts. Higher areal densities mean that fewer heads and disks are required to achieve a given drive capacity. This has significantly shortened product life cycles, since each generation of drives is more cost effective than the previous one. Shorter product cycles make it more difficult to recover the cost of product development.

Short product life cycles force us to continually qualify new products with our customers.

Due to short product life cycles, we must regularly engage in new product qualification with our customers. To be considered for qualification we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, any failure or delay in the qualification process can result in our losing sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume computer manufacturers, most of which continue to consolidate their share of the PC market. These risks are magnified because we expect cost improvements and competitive pressures to result in declining sales and gross margins on our current generation products.

Unexpected technology advances in the hard drive industry could harm our competitive position.

If one of our competitors were able to implement a significant advance in head or disk drive technology that enables a step-change increase in areal density allowing greater storage of data on a disk, it would harm our operating results.

Advances in magnetic, optical, semiconductor or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than our products. If these products prove to be superior in performance or cost per unit of capacity, we could be at a competitive disadvantage to the companies offering those products.

Our average selling prices are declining.

We expect that our average selling prices for hard drives will continue to decline. Rapid increases in areal density mean that the average drive we sell has fewer heads and disks, and is therefore lower cost. Because of the competitiveness of the hard drive industry, lower costs generally mean lower prices. This is true even for those products that are competitive and introduced into the market in a timely manner. Our average selling prices decline even further when competitors lower prices to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share.

The hard drive industry is highly competitive and characterized by rapid shifts in market share among the major competitors.

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. For example, during 1998 and 1999, we lost significant share of the desktop market. During the first quarter of 2000, the Company lost market share as a result of a previously announced product recall; however, we recovered some market share during the remainder of 2000 and during the first half of 2001, but our share is still significantly below its 1997 level.

Our prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard drives.

Demand for our hard drives depends on the demand for computer systems manufactured by our customers and on storage upgrades to existing systems. The demand for computer systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market tends to experience periods of excess capacity, which typically lead to intense price competition. Recently, several competitor manufacturers and industry analysts have forecasted softening PC demand in the U.S. If intense price competition occurs as a result of softening demand, we may be forced to lower prices sooner and more than expected and transition to new products sooner than expected.

Changes in the markets for hard drives require us to develop new products.

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems, especially those systems priced below $1,000. Although we were late to market with a value line hard drive to serve the low-cost PC market, we are now offering such value line products at prices that we view as competitive.

However, if we are not able to continue to offer a competitively priced value line hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

The PC market is fragmenting into a variety of computing devices and products. Some of these products, such as Internet appliances, may not contain a hard drive. On the other hand, many industry analysts expect, as do we, that as broadcasting and communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics and communication devices will converge, and hard drives will be found in many consumer products other than computers. If we are not successful in using our hard drive technology and expertise to develop new products for these emerging markets, it will likely harm our operating results.

We depend on our key personnel.

Our success depends upon the continued contributions of our key employees, many of whom would be extremely difficult to replace. Worldwide competition for skilled employees in the hard drive industry is intense. We have lost a number of experienced hard drive engineers over the past two years as a result of the loss of retention value of their employee stock options (because of the decrease in price of our common stock) and aggressive recruiting of our employees. If we are unable to retain our existing employees or hire and integrate new employees, our operating results would likely be harmed.

Risk factors relating to Western Digital particularly

Loss of market share with a key customer could harm our operating results.

A majority of our revenue comes from a few customers. For example, during 2001, sales to our top 10 customers accounted for approximately 60% of revenues. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed. For example, this occurred with our enterprise hard drive product line early in the third quarter of 2000 and is one of the factors which led to our decision to exit the enterprise hard drive market.

Dependence on a limited number of qualified suppliers of components could lead to delays or increased costs.

Because we do not manufacture any of the components in our hard drives, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could harm us more severely than our competitors, some of whom manufacture certain of the components for their hard drives. A number of the components used by us are available from only a single or limited number of qualified outside suppliers. If a component is in short supply, or a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. This occurred in September 1999 when we had to shut down our Caviar product line production for approximately two weeks as a result of a faulty power driver chip which was sole-sourced from a third-party supplier.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying these components. As a result, we may have to pay significant cancellation charges to suppliers if we cancel orders, as we did in 1998 when we accelerated our transition to magnetoresistive recording head technology, and as we did in 2000 as a result of our decision to exit the enterprise hard drive market.

In April 1999, we entered into a three-year volume purchase agreement with Komag under which we buy a substantial portion of our media components from Komag. In October 2001, we amended the volume purchase agreement to extend the initial term to six years. This strategic relationship has reduced our media component costs; however, it has increased our dependence on Komag as a supplier. Our future operating results may depend substantially on Komag’s ability to timely qualify its media components in our new development programs and to supply us with these components in sufficient volume to meet our production requirements. A significant disruption in Komag’s ability to manufacture and supply us with media could harm our operating results. Subsequent to June 29, 2001, Komag announced the voluntary filing for Chapter 11 reorganization. Komag further announced that it expects to continue its operations during the Chapter 11 process.

To develop new products we must maintain effective partner relationships with our strategic component suppliers.

Under our "virtual vertical integration" business model, we do not manufacture any of the parts used in our hard drives. As a result, the success of our products depends on our ability to gain access to and integrate parts that are "best in class" from reliable component suppliers. To do so we must effectively manage our relationships with our strategic component suppliers. We must also effectively integrate different products from a variety of suppliers and manage difficult scheduling and delivery problems.

We have only one manufacturing facility, which subjects us to the risk of damage or loss of the facility.

Our volume manufacturing operations currently are based in one facility in Malaysia. A fire, flood, earthquake or other disaster or condition affecting our facility or the geographic area in which it is located would almost certainly result in a loss of substantial sales and revenue and harm our operating results.

Manufacturing our products abroad subjects us to numerous risks.

We are subject to risks associated with our foreign manufacturing operations, including:

- obtaining requisite United States and foreign governmental permits and approvals
- currency exchange rate fluctuations or restrictions
- political instability and civil unrest
- transportation delays or higher freight rates
- labor problems
- trade restrictions or higher tariffs
- exchange, currency and tax controls and reallocations
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

We have attempted to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward exchange contracts. However, those contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place, as occurred in Malaysia during the first quarter of 1999. As a result of the Malaysian currency controls, we are no longer hedging the Malaysian currency risk.

Our plan to broaden our business takes us into new markets.

We are developing storage devices and content management software for the emerging broadband television market through our Keen PM subsidiary. We will be facing the challenge of developing products for a market that is still evolving and subject to rapid changes and shifting consumer preferences. There are several competitors which have also entered this emerging market, and there is no assurance that the market for digital storage devices for television and other audio-visual content will materialize or support all of these competitors.

We have entered the data warehouse software and services market through our SageTree subsidiary and are considering other initiatives related to data and content management, storage and communication. In any of these initiatives we will be facing the challenge of developing products and services for markets that are still evolving and which have many current and potential competitors. If we are not successful in these new initiatives it will likely harm our operating results.

We have developed technologies and services for integrating high-quality digital video into everyday computing through our Cameo subsidiary. We will be facing the challenge of developing products for a market that is still evolving and subject to rapid changes and shifting consumer preferences. There is no assurance that the market for these products will materialize or that the products we produce will be acceptable to that market.

Our reliance on intellectual property and other proprietary information subjects us to the risk of significant litigation.

The hard drive industry has been characterized by significant litigation. This includes litigation relating to patent and other intellectual property rights, product liability claims and other types of litigation. We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If we conclude that a claim of infringement is valid, we may be required to obtain a license or cross-license or modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would likely increase our costs and harm our operating results.

Our reliance on intellectual property and other proprietary information subjects us to the risk that these key ingredients of our business could be copied by competitors.

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. Despite safeguards, to the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain necessary legal protection. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely upon employee, consultant and vendor non-disclosure agreements and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which might harm our operating results.

Inaccurate projections of demand for our product can cause large fluctuations in our quarterly results.

If we do not forecast total quarterly demand accurately, it can have a material adverse effect on our quarterly results. We typically book and ship a high percentage of our total quarterly sales in the third month of the quarter, which makes it difficult for us to match our production plans to customer demands. In addition, our quarterly projections and results may be subject to significant fluctuations as a result of a number of other factors including:

- the timing of orders from and shipment of products to major customers
- our product mix
- changes in the prices of our products
- manufacturing delays or interruptions
- acceptance by customers of competing products in lieu of our products
- variations in the cost of components for our products
- limited access to components that we obtain from a single or a limited number of suppliers, such as Komag
- competition and consolidation in the data storage industry
- seasonal and other fluctuations in demand for computers often due to technological advances.

Rapidly changing market conditions in the hard drive industry make it difficult to estimate actual results.

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting. The rapidly changing market conditions with which we deal means that actual results may differ significantly from our estimates and assumptions. Key estimates and assumptions for us include:

- accruals for warranty against product defects
- price protection adjustments on products sold to resellers and distributors

- inventory adjustments for write-down of inventories to fair value
- reserves for doubtful accounts
- accruals for product returns.

The market price of our common stock is volatile.

The market price of our common stock has been, and may continue to be, extremely volatile. Factors such as the following may significantly affect the market price of our common stock:

- actual or anticipated fluctuations in our operating results
- announcements of technological innovations by us or our competitors which may decrease the volume and profitability of sales of our existing products and increase the risk of inventory obsolescence
- new products introduced by us or our competitors
- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures
- developments with respect to patents or proprietary rights
- conditions and trends in the hard drive, data and content management, storage and communication industries
- changes in financial estimates by securities analysts relating specifically to us or the hard drive industry in general.

In addition, the stock market in recent months has experienced extreme price and volume fluctuations that have particularly affected the stock price of many high technology companies. These fluctuations are often unrelated to the operating performance of the companies.

Securities class action lawsuits are often brought against companies after periods of volatility in the market price of their securities. A number of such suits have been filed against us in the past, and any of these litigation matters could result in substantial costs and a diversion of resources and management's attention.

We may be unable to raise future capital through debt or equity financing.

Due to our recent financial performance and the risks described in this Report, in the future we may be unable to maintain adequate financial resources for capital expenditures, working capital and research and development. We have a credit facility for our WDT subsidiary, which matures on September 20, 2003. If we decide to increase or accelerate our capital expenditures or research and development efforts, or if results of operations do not meet our expectations, we could require additional debt or equity financing. However, we cannot ensure that additional financing will be available to us or available on favorable terms. An equity financing could also be dilutive to our existing stockholders.

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

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

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Disclosure About Foreign Currency Risk

Although the majority of the Company's transactions are in U.S. Dollars, some transactions are based in various foreign currencies. From time to time, the Company purchases short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses denominated in foreign currencies. The purpose for entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. To date, a majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed twelve months. The Company does not purchase short-term forward exchange contracts for trading purposes.

Historically, the Company has focused on hedging its foreign currency risk related to the Singapore Dollar, the British Pound and the Malaysian Ringgit. With the establishment of currency controls and the prohibition of purchases or sales of the Malaysian Ringgit by offshore companies, the Company discontinued hedging its Malaysian Ringgit currency risk in 1999. Future hedging of this currency will depend on currency conditions in Malaysia. As a result of the closure of the Company's Singapore operations in 2000, the Company has also discontinued its hedging program related to the Singapore Dollar.

As of September 28, 2001, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	SEPTEMBER 28, 2001		
	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	UNREALIZED GAIN (LOSS)
	(U.S. DOLLAR EQUIVALENT AMOUNTS)		
FOREIGN CURRENCY FORWARD CONTRACTS:			
British Pound Sterling	2.5	1.47	—

During the three months ended September 29, 2000 and September 28, 2001, total realized transaction and forward exchange contract currency gains and losses were not material to the consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates would materially affect the Company's consolidated financial statements.

Disclosure About Other Market Risks

Fixed Interest Rate Risk

At September 28, 2001, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately $95.7 million, compared to the related book value of $114.0 million. The convertible debentures will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008, or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. The payment on those dates, with the exception of a Fundamental Change, can be in cash, stock or any combination, at the Company's option.

The Company has a note receivable from another company that carries a fixed rate of interest. Therefore, a significant change in interest rates would not cause this note to impact the Company's consolidated financial statements.

Variable Interest Rate Risk

At the option of WDT, borrowings under the Senior Credit Facility would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. This is the only debt which does not have a fixed-rate of interest.

The Senior Credit Facility requires WDT to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the Senior Credit Facility.

Fair Value Risk

The Company owns approximately 1.2 million shares of Vixel common stock. As of September 28, 2001, the market value of the Vixel shares was $1.6 million. The Company determines, on a quarterly basis, the fair market value of the Vixel shares and records an unrealized gain or loss resulting from the difference in the fair market value of the shares as of the previous quarter end and the fair market value of the shares on the measurement date. As of September 28, 2001, a $1.6 million total accumulated unrealized gain has been recorded in accumulated other comprehensive income. If the Company sells all or a portion of this common stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. As a result of market conditions, the market value of the shares had increased from $1.6 million as of September 28, 2001 to $2.5 million as of October 24, 2001. Due to market fluctuations, a decline in the stock's fair market value could occur.

PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

The following discussion contains forward-looking statements within the meaning of the federal securities laws. These statements relate to the Company's legal proceedings described below. Litigation is inherently uncertain and may result in adverse rulings or decisions. Additionally, the Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. In addition, the costs of defending such litigation, individually or in the aggregate, may be material, regardless of the outcome. Accordingly, actual results could differ materially from those projected in the forward-looking statements.

In 1992 Amstrad plc ("Amstrad") brought suit against the Company in California State Superior Court, County of Orange, alleging that disk drives supplied to Amstrad by the Company in 1988 and 1989 were defective and caused damages to Amstrad of not less than $186 million. The suit also sought punitive damages. The Company denied the material allegations of the complaint and filed cross-claims against Amstrad. The case was tried, and in June 1999 the jury returned a verdict in favor of Western Digital. Amstrad has appealed the judgment. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In 1994 Papst Licensing ("Papst") brought suit against the Company in federal court in California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchased from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the outcome of this matter will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In June 2000 Discovision Associates ("Discovision") notified the Company in writing that it believes certain of the Company's hard disk drive products may infringe certain of Discovision's patents. Discovision has offered to provide the Company with a license under its patent portfolio. The Company is in discussion with Discovision regarding its claims. There is no litigation pending. The Company does not believe that the outcome of this matter will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

On July 5, 2001, the Company (and its Malaysian subsidiary) filed suit against Cirrus Logic, Inc. ("Cirrus") in California Superior Court for the County of Orange for breach of contract and other claims resulting from Cirrus' role as a strategic supplier of read channel chips for the Company's hard drives. The Company also stopped making payments to Cirrus for past deliveries of chips and terminated all outstanding purchase orders from Cirrus for such chips. The Company's complaint alleges that Cirrus' unlawful conduct caused damages in excess of any amounts that may be owing on outstanding invoices or arising out of any alleged breach of the outstanding purchase orders. On August 20, 2001, Cirrus filed an answer and cross-complaint. Cirrus denied the allegations contained in the Company's complaint and asserted counterclaims against the Company for, among other things, the amount of the outstanding invoices and the Company's alleged breach of the outstanding purchase orders. On October 9, 2001, the Court granted Cirrus' Motion for Judgment on the Pleadings, with leave to amend, and on November 8, 2001, the Company filed its First Amended Complaint. The parties have begun discovery and expect that such discovery will continue for the next several months. Based on its initial investigation and the limited discovery done to date, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company's subsidiaries may be required to pay damages and other expenses, which may have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. In addition, the costs of prosecuting such litigation may be material, regardless of the outcome.

In the normal course of business, the Company receives and makes inquiries regarding possible intellectual property matters, including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to the Company. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Item 6. ***EXHIBITS AND REPORTS ON FORM 8-K***

(a) ***Exhibits:***

10.35.1	Western Digital Corporation Incentive Compensation Plan
10.43.1	First Amendment to Volume Purchase Agreement by and between Western Digital Corporation and Komag, Incorporated, dated October 5, 2001.
10.47.4	Fourth Amendment to Credit Agreement among Western Digital Technologies, Inc., the lenders identified therein and General Electric Capital Corporation and Bank of America, N.A., dated as of September 26, 2001.

(b) ***Reports on form 8-K:***

On July 30, 2001, the Company filed a current report on Form 8-K to file its press release dated July 25, 2001, announcing its financial results for its fourth quarter and 2001 fiscal year.

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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
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Joseph R. Carrillo

Joseph R. Carrillo
Vice President and Corporate Controller
(Principal Accounting Officer)

Date: November 12, 2001

EXHIBIT INDEX

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ICP

WESTERN DIGITAL CORPORATION

INCENTIVE COMPENSATION PROGRAM (ICP)

PURPOSE

The purpose of this program 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

Program eligibility is for the Hard Drive Solutions group of Western Digital and the Corporate employees supporting them who are in, or who are hired into, any of the engineering salary grades or other management personnel.

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

Employees of Western Digital and its domestic subsidiaries who are not eligible may receive a discretionary (spot bonus) award but do not generate any budget.

DESCRIPTION OF THE PROGRAM

The Incentive Compensation Program will pay as cash 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 semi-annual base salary, will determine the pool or target bonus semi-annual payout.

Predetermined performance goals were established and approved by the Compensation Committee of the Board of Directors.

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

In addition, individual and pool 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 PROGRAM

Program Period:	The two semi-annual periods July 1 to December 31 and January 1 to June 30
Award Opportunities:	The award for participants will be expressed as a percentage of salary, and determined according to salary grade.

Performance Measures:	Performance will be measured at the corporate and business group levels. Performance measures that will be used Incentive Compensation Program are as follows:
	- EBITDA less CapEx -- Earnings Before Income-Taxes Depreciation and Amortization less Capital Expenditures for the Hard Drive Solutions business group.
	- Other Financial Metrics which may be deemed appropriate including:
	  - Gross Margin
	  - Cash Flow
	  - Time to Market
	  - Time to Volume
	  - Time to Quality

Goals and Weighting:	Each team will have goals at the corporate, business group and/or team level, and each goal will have an assigned weighting. 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:	EBITDA must be at a minimum level for incentives to be paid under any aspect of the Program. In addition, each team may have a predetermined thresholds below which no incentives will be paid for that business group.
Total Award Cap:	Total awards paid under this Program 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 provided that total awards do not exceed the amounts generated by formula. 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
All Participants	+100%	-100%

All awards under this program 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 program 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 semi-annual period 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 period worked.

Partial Year Participation: The Compensation Committee, in its discretion, may pay prorated awards to people hired or promoted into eligible positions. In general, awards will be prorated for participants who begin before employment more than 3 months into the period.

Deferred Payout: Before the end of the calendar year, the participant may elect to defer payout of all or part of the award in accordance with Western Digital's Deferred Compensation Plan. The deferred amount will be credited with a rate as specified in the Western Digital's Deferred Compensation Plan.

Payout of Award: Awards will be paid in cash as soon as possible following the end of the semi-annual period or according to the participant's deferral election.

AMENDMENT NO. 1 TO VOLUME PURCHASE AGREEMENT

This Amendment No. 1 ("Amendment"), with an effective date of October 5, 2001, to the Volume Purchase Agreement (as amended, "VPA") dated as of April 8, 1999 between Western Digital Corporation, a Delaware corporation ("WDC"), and Komag, Inc., a Delaware corporation ("Komag"), is made by and among WDC, Komag and Komag USA (Malaysia) Sdn., a Malaysia unlimited liability company ("Komag Malaysia").

RECITALS

A. WDC and Komag entered into the VPA whereby Komag and/or Komag Malaysia would supply WDC's media requirements for a three year period.

B. As permitted by Section 12.4 of the VPA, Komag and Komag Malaysia entered into an Assignment of Rights and Delegation of Duties under the VPA, with an effective date of December 12, 1999, pursuant to which Komag assigned to Komag Malaysia its rights and delegated the performance of its duties under the VPA.

C. WDC wishes to accept Komag Malaysia as the assignee of Komag and its rights and obligations under the VPA, and WDC, Komag and Komag Malaysia wish to amend the VPA to extend its term and to make certain other changes.

D. On August 24, 2001, Komag filed a voluntary petition under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing Case No. 01-54143-JRG currently pending before the United States Bankruptcy Court for the Northern District of California (the "Bankruptcy Court"). Komag currently is managing its affairs as a debtor in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

AGREEMENT

FOR GOOD AND VALUABLE CONSIDERATION, the receipt of which is hereby acknowledged, the parties agree as follows:

1. In the table at the end of section 1.19.1 of the VPA, the entry in the bottom row, middle column, shall be amended in its entirety to read as follows:

   "Until the end of the term of the agreement as defined in section 9.1"

2. In the table at the end of section 4.1 of the VPA, the entry in the bottom row, middle column, shall be amended in its entirety to read as follows:

   "Until the end of the term of the agreement as defined in section 9.1"

3. In the table at the end of section 4.1 of the VPA, the heading in the top row, right column shall be amended in its entirety to read as follows:

   "PURCHASE REQUIREMENTS DURING EACH 12 MONTH PERIOD"

4. Section 9.1 of the VPA shall be amended in its entirety to read as follows:

"This VPA shall continue in force for an initial term of six years from the Effective Date and shall be automatically renewed for successive two (2) year periods thereafter; provided, however, that either party may elect to not renew this VPA by notifying the other party no later than one year prior to the expiration of the initial term or any succeeding term of its intention to not have the VPA automatically renewed at the expiration of such term."

5. All other terms of the VPA shall remain the same.

6. Komag Malaysia, as the assignee of Komag under the VPA, hereby agrees to be bound by all of the terms and conditions of and to perform the obligations of Komag under the VPA, as amended. Western Digital hereby acknowledges Komag's assignment of its rights and delegation of its performance under the VPA to Komag Malaysia and accepts Komag Malaysia as the assignee of Komag and all its rights and obligations under the VPA, as amended; provided, however, that Komag agrees to continue to provide its personnel and resources in support of Komag Malaysia's qualification obligations under the VPA.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their duly authorized representatives as of the Effective Date.

Western Digital Corporation

By: /s/ Michael A. Cornelius

Name: Michael A. Cornelius

Title: Vice President, Law and Administration

Komag, Inc.

By:

Name:

Title:

Komag USA (Malaysia) Sdn.

By:

Name:

Title:

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT ("Amendment") is entered into as of September 26, 2001, by and among WESTERN DIGITAL TECHNOLOGIES, INC., a Delaware corporation formerly known as Western Digital Corporation ("Borrower"), the other Credit Parties party hereto, the lenders signatory hereto (each individually a "Lender" and collectively the "Lenders"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as administrative agent for Lenders (in such capacity, "Agent"), and BANK OF AMERICA, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent").

RECITALS

A. Borrower, the other Credit Parties party thereto, Lenders, and Co-Agents have entered into the Credit Agreement dated as of September 20, 2000, as amended by the First Amendment to Credit Agreement dated as of March 8, 2001, the Second Amendment to Credit Agreement dated as of March 23, 2001, and the Third Amendment to Credit Agreement dated as of April 7, 2001 (collectively, "Credit Agreement"), pursuant to which Co-Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

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

AGREEMENT

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

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

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

(a) The definition of each of the following terms in Annex A to the Credit Agreement is hereby deleted in its entirety and replaced with the new definition for such term set forth below:

> "Account Debtor" means any Person who may become obligated to any other Person under, with respect to, or on account of, an Account, Chattel Paper or General Intangible (including a payment intangible).
>
> "Accounts" means all "accounts," as such term is defined in the Code, now owned or hereafter acquired by any Person, including (a) all accounts receivable, other

receivables, book debts and other forms of obligations (other than forms of obligations evidenced by Chattel Paper, or Instruments), (including any such obligations that may be characterized as an account or contract right under the Code), (b) all of each Person's rights in, to and under all purchase orders or receipts for goods or services, (c) all of each Person's rights to any goods represented by any of the foregoing (including unpaid sellers' rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), (d) all rights to payment due to any Person for property sold, leased, licensed, assigned or otherwise disposed of, for a policy of insurance issued or to be issued, for a secondary obligation incurred or to be incurred, for energy provided or to be provided, for the use or hire of a vessel under a charter or other contract, arising out of the use of a credit card or charge card, or for services rendered or to be rendered by such Credit Party or in connection with any other transaction (whether or not yet earned by performance on the part of such Credit Party), (e) all health-care-insurance receivables and (f) all collateral security of any kind, given by any Account Debtor or any other Person with respect to any of the foregoing.

"Equipment" means all "equipment," as such term is defined in the Code, now owned or hereafter acquired by any Person, wherever located and, in any event, including all such Person's machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment, including embedded software and peripheral equipment and all engineering, processing and manufacturing equipment, office machinery, furniture, materials handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles, rolling stock and other equipment of every kind and nature, trade fixtures and fixtures not forming a part of real property, together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings, instructions, warranties and rights with respect thereto, and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

"Goods" means all "goods" as defined in the Code, now owned or hereafter acquired by any Person, wherever located, including embedded Software to the extent included in "goods" as defined in the Code.

"Letter-of-Credit-Rights" means all "letter-of-credit rights," as such term is defined in the Code, now owned or hereafter acquired by any Person, including rights to payment or performance under a letter-of-credit, whether or not such Person, as beneficiary, has demanded or is entitled to demand payment or performance.

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

"Software" means all "software," as such term is defined in the Code, now owned or hereafter acquired by any Person, other than software embedded in any category of goods, including all computer programs and all supporting information provided in connection with a transaction related to any program.

"Supporting Obligations" means all "supporting obligations" as such term is defined in the Code, now owned or hereafter acquired by any Person, including letters of credit and guaranties issued in support of Accounts, Chattel Paper, Documents, General Intangibles, Instruments or Investment Property.

"Uniform Commercial Code jurisdiction" means any jurisdiction that had adopted all or substantially all of Article 9 as contained in the 2000 Official Text of the Uniform Commercial Code, as recommended by the National Conference of Commissioners on Uniform

State Laws and the American Law Institute, together with any subsequent amendments or modifications to the Official Text.

(c) The definition of each of the following terms in Annex A to the Credit Agreement is hereby amended as follows:

(i) The definition of "Chattel Paper" is hereby amended by adding the words "including electronic chattel paper," immediately following the reference to "Code,".

(ii) The definition of "Code" is hereby amended by adding the following immediately after the reference therein to "provided,":

> that to the extent that the Uniform Commercial Code is used to define any term in the Agreement or in any other Loan Document and such term is defined differently in different Articles or Divisions of the Uniform Commercial Code, the definition of such term contained in Article or Division 9 shall govern; provided further,

(iii) The definition of "Inventory" is hereby amended by adding the words "and embedded software" immediately following the reference thereto to "other supplies".

(iv) The definition of "Proceeds" is hereby amended by deleting clauses (d) and (e) of such definition and replacing it with the following:

> (d) any recoveries by any Person against third parties with respect to any litigation or dispute concerning any of the Collateral including claims arising out of the loss or nonconformity of, interference with the use of, defects in, or infringement of rights in, or damage to, Collateral, (e) all amounts collected on, or distributed on account of, other Collateral, including dividends, interest, distributions and Instruments with respect to Investment Property and pledged Stock, and (f) any and all other amounts, rights to payment or other property acquired upon the sale, lease, license, exchange or other disposition of Collateral and all rights arising out of Collateral.

(d) The second sentence of the third to the last paragraph of Annex A to the Credit Agreement is hereby amended by (i) deleting the reference therein to "as in effect in the State of California" and (ii) adding the following proviso immediately preceding the period at the end thereof: "provided, that in the event that any term is defined differently in different Articles or Divisions of the Code, the definition thereof contained in Article or Division 9 shall control".

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

(A) No.	(B) Period	(C) Capital Expenditure Allocation	(D) Maximum Combined Expenditures
1	7/1/00 through 9/29/00	$10,000,000	$25,000,000
2	7/1/00 through 12/29/00	$26,000,000	$56,000,000

3	7/1/00 through 3/30/01	$41,000,000	$86,000,000
4	7/1/00 through 6/29/01	$55,000,000	$115,000,000
5	9/30/00 through 9/28/01	$66,000,000	$117,000,000
6	12/30/00 through 12/28/01	$65,000,000	$107,900,000
7	3/31/01 through 3/29/02	$63,000,000	$98,500,000
8	6/30/01 through 6/28/02	$60,000,000	$89,700,000
9	9/29/01 through 9/27/02	$57,000,000	$74,600,000
10	12/29/01 through 12/27/02	$58,000,000	$70,800,000
11	3/30/02 through 3/28/03	$61,000,000	$71,600,000
12	6/29/02 through 6/27/03	$65,000,000	$75,600,000

(f) Paragraph (b) of Annex G to the Credit Agreement is hereby amended by (i) deleting the reference to "$58,000,000" and replacing it with "$51,500,000", (ii) deleting the reference to "$69,000,000" and replacing it with "$45,200,000", (iii) deleting the reference to "$71,000,000" and replacing it with "$43,800,000", and (iv) deleting the reference to $73,000,000" and replacing it with "$63,200,000".

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

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

(A) Period Ending On	(B) Maximum New Venture Investments
September 28, 2001	$51,000,000
December 28, 2001	$42,900,000
March 29, 2002	$35,500,000
June 28, 2002	$29,700,000
September 27, 2002	$17,600,000
December 27, 2002	$12,800,000
March 28, 2003	$10,600,000
June 27, 2003	$10,600,000

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

(e) Borrower and it Subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make aggregate Capital Expenditures that exceed the total EBITDA for Borrower and its Subsidiaries on a consolidated basis, in each case for the 12-month period then ended (or with respect to each of the Fiscal Quarters ending on or prior to March 30, 2001, the period commencing on July 1, 2000, and ending on the last day of such Fiscal Quarter); provided, that with respect to (i) the nine-month period from July 1, 2000, through March 30, 2001, (ii) the 12-month period from September 30, 2000, through September 28, 2001, (iii) the 12-month period from December 30, 2000, through December 28, 2001, and (iv) the 12-month period from March 31, 2001, through March 29, 2002, the aggregate Capital Expenditures of Borrower and its Subsidiaries (other than the Excluded Subsidiaries) for each such period provided for in clauses (i) through (v) above, shall not exceed the sum of (A) EBITDA for Borrower and its Subsidiaries (other than the Excluded Subsidiaries) for such period on a consolidated basis plus (B) $5,000,000.

(i) Each reference in the Credit Agreement or the other Loan Documents to "General Electric Capital Corporation, a New York corporation," is hereby deleted and "General Electric Capital Corporation, a Delaware corporation," is substituted in lieu thereof.

(j) Each reference in the Credit Agreement or the other Loan Documents to "Letter of Credit Rights" is hereby deleted and "Letter-of-Credit-Rights" is substituted in lieu thereof.

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

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

(b) receipt by Co-Agents of the First Amendment to Security Agreement (other than Schedules II and III to the Security Agreement) duly executed by Borrower and Agent;

(c) receipt by Co-Agents of the Power of Attorney duly executed by Borrower in favor of Agent and acknowledged by a notary public;

(d) payment of $50,000 by Borrower to Agent, for the ratable benefit of Lenders, as an amendment fee in connection with this Fourth Amendment; and

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

4. Additional Covenant. On or before October 15, 2001, Borrower shall deliver to Co-Agents completed Schedules II and III to the Security Agreement, in form and substance satisfactory to Co-Agents, in furtherance of Borrower's duties to give further assurances to Co-Agents and Lenders pursuant to the terms of the Credit Agreement, Security Agreement and the other Loan Documents. Borrower's failure to comply with the foregoing covenant by October 15, 2001, shall constitute an immediate Event of Default.

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

6. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or any

other Credit Party, as applicable, has previously advised Co-Agents in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof.

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

8. Miscellaneous.

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

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

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

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

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

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

[Remainder of Page Intentionally Left Blank]

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

GENERAL ELECTRIC CAPITAL CORPORATION,
as Administrative Agent and a Lender

By: ------------------------------------
Robert S. Yasuda
Duly Authorized Signatory

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

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

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

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

WESTERN DIGITAL TECHNOLOGIES, INC.,
a Delaware corporation formerly known as
Western Digital Corporation

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

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

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

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

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

APPENDIX A

(REQUEST LETTER FROM BORROWER)

SEE ATTACHED.

POWER OF ATTORNEY

This Power of Attorney is executed and delivered by Western Digital Technologies, Inc., a Delaware corporation formerly known as Western Digital Corporation ("Grantor") to General Electric Capital Corporation, a Delaware corporation (hereinafter referred to as "Attorney"), as Agent, for the benefit of Co-Agents and Lenders, under a Credit Agreement dated as of September 20, 2000, as amended, a Security Agreement dated as of September 20, 2000, as amended, and the other related documents (collectively, the "Loan Documents"). No person to whom this Power of Attorney is presented, as authority for Attorney to take any action or actions contemplated hereby, shall be required to inquire into or seek confirmation from Grantor as to the authority of Attorney to take any action described below, or as to the existence of or fulfillment of any condition to this Power of Attorney, which is intended to grant to Attorney unconditionally the authority to take and perform the actions contemplated herein, and Grantor irrevocably waives any right to commence any suit or action, in law or equity, against any person or entity which acts in reliance upon or acknowledges the authority granted under this Power of Attorney. The power of attorney granted hereby is coupled with an interest, and may not be revoked or canceled by Grantor without Attorney' s written consent.

Subject to the limitations set forth in Section 6 of the Security Agreement, the terms of which are incorporated herein by this reference, Grantor hereby irrevocably constitutes and appoints Attorney (and all officers, employees or agents designated by Attorney), with full power of substitution, as Grantor's true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Grantor and in the name of Grantor or in its own name, from time to time in Attorney's discretion, to take any and all appropriate action and to execute and deliver any and all documents and instruments which may be necessary or desirable to accomplish the purposes of the Loan Documents and, without limiting the generality of the foregoing, Grantor hereby grants to Attorney the power and right, on behalf of Grantor, without notice to or assent by Grantor, and at any time, to do the following: (a) change the mailing address of Grantor, open a post office box on behalf of Grantor, open mail for Grantor, and ask, demand, collect, give acquittances and receipts for, take possession of, endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, and notices in connection with any property of Grantor; (b) effect any repairs to any asset of Grantor, or continue or obtain any insurance and pay all or any part of the premiums therefor and costs thereof, and make, settle and adjust all claims under such policies of insurance, and make all determinations and decisions with respect to such policies; (c) pay or discharge any taxes, liens, security interests, or other encumbrances levied or placed on or threatened against Grantor or its property; (d) defend any suit, action or proceeding brought against Grantor if Grantor does not defend such suit, action or proceeding or if Attorney believes that Grantor is not pursuing such defense in a manner that will maximize the recovery to Attorney, and settle, compromise or adjust any suit, action, or proceeding described above and, in connection therewith, give such discharges or releases as Attorney may deem appropriate; (e) file or prosecute any claim, litigation, suit or proceeding in any court of competent jurisdiction or before any arbitrator, or take any other action otherwise deemed appropriate by Attorney for the purpose of collecting any and all such moneys due to Grantor whenever payable and to enforce any other right in respect of Grantor's property; (f) cause the certified public accountants then engaged by Grantor to prepare and deliver to Attorney at any time and from time to time, promptly upon Attorney's request, the following reports: (1) a reconciliation of all accounts, (2) an aging of all accounts, (3) trial balances, (4) test verifications of such accounts as Attorney may request, and (5) the results of each physical verification of inventory; (g) communicate in its own name with any party to any Contract with regard to the assignment of the right, title and interest of such Grantor in and under the Contracts and other matters relating thereto; (h) to file such financing statements with respect to the Security Agreement, with or without Grantor's signature, or to file a photocopy of the Security Agreement in substitution for a financing statement, as Agent may deem appropriate and to execute in Grantor's name such financing statements and amendments thereto and continuation statements which may require Grantor's signature; and (i) execute, in connection with any sale provided for in any Loan Document, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral and to otherwise direct such sale or resale, all as though Attorney were the absolute owner of the property of Grantor for all purposes, and to do, at Attorney's option and Grantor's expense, at any time or from time to time, all acts and other things that Attorney reasonably deems necessary to perfect, preserve, or realize upon Grantor's property or assets and Attorney's Liens thereon, all as fully and effectively as Grantor might do. Grantor hereby ratifies, to the extent permitted by law, all that said Attorney shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this Power of Attorney is executed by Grantor, and Grantor has caused its seal to be affixed pursuant to the authority of its board of directors this 26th day of September, 2001.

"GRANTOR"

WESTERN DIGITAL TECHNOLOGIES, INC.,
a Delaware corporation formerly known as
Western Digital Corporation

By:

Name:

Title:

ACKNOWLEDGMENT OF INSTRUMENTS

STATE OF ________________ SS.

COUNTY OF________________

On ___________________ , before me, the undersigned notary public in and for said state, personally appeared ___________________________ , personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.