

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

FORM 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2000.

OR

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

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

95-2647125

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

8105 Irvine Center Drive
Irvine, California

92618

(Address of principal executive offices)

(Zip Code)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (949) 932-5000
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 No

Number of shares outstanding of Common Stock, as of April 28, 2000, is 139,340,111.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000
Revenues, net.....	\$ 668,456	\$ 516,587
Costs and expenses:		
Cost of revenues.....	628,592	505,003
Research and development.....	62,699	33,770
Selling, general and administrative.....	46,210	33,970
Restructuring charges.....	41,000	28,002
Total costs and expenses.....	778,501	600,745
Operating loss.....	(110,045)	(84,158)
Net interest and other income (expense).....	(4,248)	13,489
Net loss.....	\$(114,293)	\$ (70,669)
Basic and diluted loss per common share:		
Loss per common share.....	\$ (1.27)	\$ (.53)
Common shares used in computing per share amounts:		
Basic.....	89,883	133,903
Diluted.....	89,883	133,903

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

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

	NINE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000
Revenues, net.....	\$ 2,057,904	\$ 1,483,718
Costs and expenses:		
Cost of revenues.....	2,081,625	1,517,235
Research and development.....	164,983	127,996
Selling, general and administrative.....	151,361	116,862
Restructuring charges.....	41,000	85,837
Total costs and expenses.....	2,438,969	1,847,930
Operating loss.....	(381,065)	(364,212)
Net interest and other income (expense).....	(10,139)	5,132
Loss before extraordinary item.....	(391,204)	(359,080)
Extraordinary gain from redemption of convertible debentures.....	--	166,899
Net loss.....	\$ (391,204)	\$ (192,181)
Basic and diluted loss per common share:		
Loss per common share before extraordinary item....	\$ (4.39)	\$ (3.07)
Extraordinary gain.....	--	1.43
Loss per common share.....	\$ (4.39)	\$ (1.64)
Common shares used in computing per share amounts:		
Basic.....	89,105	116,983
Diluted.....	89,105	116,983

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)

	JULY 3, 1999 -----	MAR. 31, 2000 ----- (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 226,147	\$202,087
Accounts receivable, less allowance for doubtful accounts of \$18,537 at July 3, 1999 and \$15,069 at March 31, 2000.....	273,435	177,455
Inventories.....	144,093	98,208
Prepaid expenses & other current assets.....	81,853	56,068
	-----	-----
Total current assets.....	725,528	533,818
Property and equipment at cost, net.....	237,939	108,886
Intangible and other assets, net.....	58,935	47,491
	-----	-----
Total assets.....	\$1,022,402	\$690,195
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable.....	\$ 335,907	\$ 290,330
Accrued expenses.....	252,791	234,713
Current portion of long-term debt.....	10,000	--
	-----	-----
Total current liabilities.....	598,698	525,043
Long-term debt.....	40,000	--
Convertible debentures.....	494,144	222,562
Other liabilities.....	43,350	51,393
Shareholders' deficiency:		
Preferred stock, \$.01 par value; Authorized: 5,000 shares Outstanding: None.....	--	--
Common stock, \$.01 par value; Authorized: 225,000 shares Outstanding: 101,908 shares at July 3, 1999 and 149,175 at March 31, 2000.....	1,019	1,492
Additional paid-in capital.....	335,197	532,476
Accumulated deficit.....	(294,841)	(487,022)
Accumulated other comprehensive income (loss).....	(2,123)	25,287
Treasury stock-common stock at cost; 11,297 shares at July 3, 1999 and 9,852 shares at March 31, 2000.....	(193,042)	(181,036)
	-----	-----
Total shareholders' deficiency.....	(153,790)	(108,803)
	-----	-----
Total liabilities and shareholders' deficiency.	\$ 1,022,402	\$ 690,195
	=====	=====

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

	THREE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(114,293)	\$ (70,669)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-Cash Items:		
Depreciation and amortization.....	34,554	17,726
Interest on convertible debentures.....	6,279	2,896
Non-cash portion of restructuring charges.....	25,603	27,497
In-process research and development charge.....	7,471	--
Investment gains (Note 2).....	--	(14,767)
Changes in assets and liabilities:		
Accounts receivable.....	60,498	20,905
Inventories.....	(2,439)	3,520
Prepaid expenses.....	(9,630)	(490)
Accounts payable.....	(36,407)	32,917
Accrued expenses.....	(18,335)	(42,497)
Restructuring and special charge accruals.....	7,850	(2,387)
Other.....	(74)	5,804
Net cash used for operating activities.....	(38,923)	(19,545)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property and equipment.....	--	29,737
Capital expenditures, net.....	(27,666)	(3,258)
Other investments.....	1,500	--
Net cash provided by (used for) investing activities.....	(26,166)	26,479
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank debt (Note 5).....	--	(16,625)
Common stock issued for cash.....	8,524	48,103
Net cash provided by financing activities...	8,524	31,478
Net increase (decrease) in cash and cash equivalents.....	(56,565)	38,412
Cash and cash equivalents, beginning of period.....	353,660	163,675
Cash and cash equivalents, end of period.....	\$ 297,095	\$ 202,087
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes.....	\$ 763	\$ 3,225
Cash paid during the period for interest.....	1,418	166

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

	NINE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(391,204)	\$(192,181)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-Cash Items:		
Depreciation and amortization.....	101,841	64,949
Interest on convertible debentures.....	18,596	12,513
Non-cash portion of restructuring charges.....	25,603	56,301
In-process research and development charge.....	7,471	--
Extraordinary gain from redemption of convertible debentures.....	--	(166,899)
Investment gains (Note 2).....	--	(14,767)
Changes in assets and liabilities:		
Accounts receivable.....	57,551	95,980
Inventories.....	23,103	45,885
Prepaid expenses.....	2,158	6,203
Accounts payable.....	19,467	(18,837)
Accrued expenses.....	37,987	(65,947)
Restructuring and special charge accruals.....	7,850	47,542
Other.....	2,322	8,474
Net cash used for operating activities.....	(87,255)	(120,784)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property and equipment.....	--	66,756
Capital expenditures, net.....	(87,763)	(17,101)
Other investments.....	--	(2,200)
Net cash provided by (used for) investing activities.....	(87,763)	47,455
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank debt (Note 5).....	--	(50,000)
Common stock issued for cash.....	15,208	99,269
Costs relating to credit facility.....	(2,925)	--
Net cash provided by financing activities....	12,283	49,269
Net decrease in cash and cash equivalents.....	(162,735)	(24,060)
Cash and cash equivalents, beginning of period.....	459,830	226,147
Cash and cash equivalents, end of period.....	\$ 297,095	\$ 202,087
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes.....	\$ 4,080	\$ 4,307
Cash paid during the period for interest.....	3,554	2,094

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 July 3, 1999.

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 generally accepted accounting principles 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 July 3, 1999.

The Company has a 52 or 53-week fiscal year. In order to align its manufacturing and financial calendars, effective during the three months ended December 31, 1999, the Company changed its fiscal calendar so that each fiscal month ends on the Friday nearest to the last day of the calendar month. Prior to this change, the Company's fiscal month ended on the Saturday nearest to the last day of the calendar month. The change did not have a material impact on the Company's results of operations or financial position. 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.

2. Supplemental Financial Statement Data (in thousands)

	JULY 3, 1999	MAR. 31, 2000
	-----	-----
Inventories:		
Finished goods.....	\$101,828	\$72,027
Work in process.....	26,307	13,907
Raw materials and component parts....	15,958	12,274
	-----	-----
	\$144,093	\$98,208
	=====	=====

	THREE-MONTH PERIOD ENDED		NINE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000	MAR. 27, 1999	MAR. 31, 2000
	-----	-----	-----	-----
Net Interest and Other Income (Expense):				
Interest income.....	\$ 4,187	\$ 1,939	\$ 14,303	\$ 6,425
Investment gains.....	--	14,767	--	14,767
Interest expense.....	(8,435)	(3,217)	(24,442)	(16,060)
	-----	-----	-----	-----
	\$ (4,248)	\$13,489	\$ (10,139)	\$ 5,132
	=====	=====	=====	=====

	NINE-MONTH PERIOD ENDED	
	MAR. 27, 1999	MAR. 31, 2000
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued for redemption of convertible debentures.....	\$ --	\$ 110,109
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs.....	\$ --	\$ 277,008
Settlement of accounts payable by transfer of cost method investments.....	\$ --	\$ 26,242

3. Loss per Share

As of March 27, 1999 and March 31, 2000, 16.6 and 21.3 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 March 27, 1999 and March 31, 2000, an additional 19.4 and 8.4 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.

4. Common Stock Transactions

On September 30, 1999, the Company's Board of Directors approved a "Broad-Based" Stock Incentive Plan (the "Broad-Based Plan") under which options to purchase shares of common stock may be granted to employees of the Company and others. On October 20, 1999, the Board of Directors approved a grant to its regular, non-direct labor employees of approximately 2.4 million shares under the Broad-Based Plan and the Company's Employee Stock Option Plan, at \$3.31 per share, the fair market value of the Company's common stock on the date of the grant. The options granted vest 100% one year from the date of grant.

On September 10, 1998, the Company's Board of Directors authorized and declared a dividend distribution of one Right for each share of common stock of the Company outstanding at the close of business on November 30, 1998. In addition, the Company's Board of Directors authorized the issuance of one Right for each share of common stock of the Company issued from the record date until certain dates as specified in the Company's rights agreement dated as of October 15, 1998, pursuant to which the Company's then existing shareholders rights plan was replaced by a successor ten year plan. The Rights issued become exercisable for common stock at a discount from market value upon certain events related to a change in control.

During the nine-month period ended March 31, 2000, the Company issued approximately 1,236,000 shares of its common stock in connection with Employee Stock Purchase Plan ("ESPP") purchases and 210,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of approximately \$5.5 million. During the corresponding period of the prior year, the Company issued approximately 1,002,000 shares of its common stock in connection with ESPP purchases and 709,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of \$15.2 million.

Under an existing equity facility, the Company may issue for cash, shares of common stock to institutional investors in monthly increments of \$12.5 million. The equity facility provides for up to \$150.0 million in cash proceeds of which \$93.8 million had been utilized during the nine month period ended March 31, 2000. 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 nine months ended March 31, 2000, the Company

issued 20.5 million shares of common stock under the equity facility for net cash proceeds of approximately \$93.8 million.

During the nine-month period ended March 31, 2000, the Company issued 26.7 million shares of common stock to redeem a portion of its 5.25% zero coupon convertible subordinated debentures (the "Debentures") with a book value of \$284.1 million and an aggregate principal amount at maturity of \$735.6 million. These redemptions were private, individually negotiated transactions with certain institutional investors. The redemptions resulted in extraordinary gains of \$166.9 million during the nine months ended March 31, 2000. As of March 31, 2000, the book value of the remaining outstanding Debentures was \$222.6 million and the aggregate principal amount at maturity was \$561.6 million.

5. Credit Facility

The Company's credit facility matured on March 31, 2000. The remaining balance on the term loan was repaid using the proceeds from the equity facility during the three months ended March 31, 2000. The Company has a commitment for a new Senior Credit Facility that will provide up to a \$150 million revolving credit line (depending on a borrowing base calculation). The new Senior Credit Facility will be secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets of the Company, excluding the Company's Connex and Sagetree subsidiaries. At the option of the Company, borrowings 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. The Company anticipates that the new Senior Credit Facility will be completed by June 30, 2000.

6. Sales of Real Property

On August 9, 1999, the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for \$26 million (the approximate cost of the land). The Company has extended the current lease of its worldwide headquarters in Irvine, California, through January 2001.

During December 1999, the Company received an \$11.0 million deposit on the sale of its enterprise drive manufacturing facility in Tuas, Singapore. The total sales proceeds were \$11.0 million and the sale was recognized during the three months ended March 31, 2000. The corresponding gain on the sale of \$3.1 million is included in net restructuring charges for the three months ended March 31, 2000.

During the three months ended March 31, 2000, the Company sold its Rochester, Minnesota enterprise research and development facility for \$29.7 million. The resulting loss of \$1.9 million is included in net restructuring charges for the three months ended March 31, 2000.

7. Restructuring Activities

CONSOLIDATION OF ASIA MANUFACTURING FACILITIES

During the first half of 2000, the Company initiated a restructuring program directed at improving operational effectiveness and efficiency and reducing operational expenses worldwide. Charges related to these restructuring actions were accrued in the periods in which executive management committed to execute such actions. Committed actions for the six months ended December 31, 1999 included reorganization of operational and management responsibilities, transfer of hard drive production from Singapore to the Company's manufacturing facility in Malaysia, closure of the Company's Singapore operations, and taking property and equipment out of service and holding it for disposal. These actions resulted in a net reduction of worldwide headcount of approximately 1,600, of which approximately 140 were management, professional and administrative personnel and the remainder were manufacturing employees. In Asia, approximately 3,800 employees were reduced from the Company's Singapore operation and approximately 2,900 were added in Malaysia in connection with the transfer of production. The restructuring charges originally recorded during the six months ended December 31, 1999, as well as third-quarter changes to the original restructuring accruals are summarized in the table below. No additional

restructuring charges for the Desktop product line were recorded during the quarter ended March 31, 2000.

ENTERPRISE DRIVE MARKET

On January 19, 2000, the Company announced its plans to exit the enterprise hard drive market and shift its strategic focus and resources in the enterprise storage market to Internet-related data content management systems and management software. In connection with this decision, the Company closed its Rochester, Minnesota enterprise hard drive design center and approximately 402 employees in the design center were laid off and given legally required notification and outplacement services. The exit from the enterprise market resulted in a restructuring charge of \$38.1 million during the three months ended March 31, 2000. The restructuring charge consisted of \$27.4 million for property and equipment write-offs (equipment taken out of service and held for disposal) including the loss on the sale of the Rochester facility, and \$10.7 million for severance, outplacement and other incremental costs associated with the closure. Reducing these charges is the gain realized on the sale of the Tuas facility of \$3.1 million, the favorable settlement of lease commitments in Singapore of \$5.3 million and favorable settlement of 1999 restructuring accruals of \$1.7 million. Below is a summary of the restructuring charges, the amounts paid and the ending accrual balance (in thousands) for the nine months ended March 31, 2000. The Company estimates that these restructuring efforts will be substantially completed by June 30, 2000.

	Nine Month Period Ended March 31, 2000		
	Accruals	Non-Cash Charges	Total Charges
	-----	-----	-----
Consolidation of Asian Operation:			
Fixed asset write-offs	\$ --	\$ 28,804	\$ 28,804
Severance and outplacement	18,028	--	18,028
Lease cancellation and other (net of favorable lease settlement of \$5,252 recorded in third quarter)	5,733	--	5,733
	-----	-----	-----
	23,761	28,804	52,565
Closure of enterprise drive business:			
Fixed asset write-offs		27,497	27,497
Severance, outplacement and other	10,651	--	10,651
	-----	-----	-----
	10,651	27,497	38,148
	-----	-----	-----
	34,412	56,301	90,713
Cash Payments:	(26,364)	--	
	-----	-----	
	\$ 8,048	\$ 56,301	
	=====	=====	
Changes to 1999 restructuring estimates:			
Gain on sale of Tuas building			(3,100)
Favorable settlement of 1999 restructuring accruals			(1,776)

			\$ 85,837
			=====

8. Product Recall

On September 27, 1999, the Company announced a recall of its 6.8GB per platter series of WD Caviar(R) desktop hard drives because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. Approximately 1.2 million units were manufactured with the faulty chip. Replacement of the chips involved rework of the printed circuit board assembly. Revenues of approximately \$100 million related to the products that were recalled were reversed in the three months ended October 2, 1999. In addition, the Caviar product line was shut down for approximately two weeks, eliminating approximately \$70 million of forecasted revenue during the three months ended October 2, 1999. Cost of revenues for the three months ended October 2, 1999 included charges totaling \$37.7 million for estimated costs to recall and repair the affected drives, consisting of \$23.1 million for repair and retrieval, \$4.5 million for freight and other, and \$10.1 million for write-downs of related inventory. By March 31, 2000, the Company had completed rework on approximately 83% of the 1.2 million units and had resolved its claims against third parties resulting from the recall.

9. Investments in Marketable Securities

The Company owns approximately 10.8 million shares of Komag common stock, which when acquired on April 8, 1999, had a fair market value of \$34.9 million. The stock is restricted as to the number of shares which can be sold in a given time period. The restrictions lapse over a three and one-half year period. As of March 31, 2000, approximately 60% of these shares may be sold within twelve months. Because the Company has identified these shares as "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Investments in Certain Debt and Equity Securities" ("SFAS 115"), the amount sellable within twelve months has been marked to market value using published closing prices of Komag stock as of March 31, 2000. Accordingly, a total accumulated unrealized gain of \$3.6 million is included in accumulated other comprehensive income (loss). The aggregate carrying value of the shares was \$38.5 million (market value of approximately \$40.9 million) as of March 31, 2000, of which \$24.6 million relates to shares sellable within twelve months and is classified as current. Due to market conditions, as of April 28, 2000 the market value of all Komag shares held by the Company had declined to \$31.7 million, of which \$19.0 million relates to shares sellable within twelve months.

The Company owns approximately 1.3 million shares of Vixel Corporation ("Vixel") common stock. The Company has identified these shares as "available for sale" under the provisions of SFAS 115. During the three months ended October 2, 1999, Vixel completed an initial public offering and the shares were marked to market value. At March 31, 2000 a total accumulated unrealized gain of \$21.7 million is included in accumulated other comprehensive income (loss). The investment in Vixel common stock is classified as current. The aggregate carrying value of the shares, which approximates market value, is \$21.7 million as of March 31, 2000. As of April 28, 2000 the market value had declined to \$9.4 million, due to market conditions.

10. Other Comprehensive Income (Loss)

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), beginning with the Company's fourth quarter of 1999. Prior to the fourth quarter of 1999, the Company did not possess any components of other comprehensive income as defined by SFAS 130. SFAS 130 separates comprehensive income into two components: net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity (deficiency) but are excluded from net income (loss). While SFAS 130 establishes new rules for the reporting and display of comprehensive income (loss), SFAS 130 has no impact on the Company's net loss or total shareholders' deficiency. The Company's other comprehensive income (loss) is comprised of unrealized gains and losses on marketable securities categorized as "available for sale" under SFAS 115. The components of total comprehensive loss for the three and nine-month periods ended March 31, 2000 were as follows (in millions):

	THREE-MONTH PERIOD ENDED MAR. 31, 2000	NINE-MONTH PERIOD ENDED MAR. 31, 2000
	-----	-----
Net loss	\$ (70.7)	\$ (192.2)
Other comprehensive income:		
Unrealized gain on available for sale investments, net	1.8	27.4
	-----	-----
Total comprehensive loss	\$ (68.9)	\$ (164.8)
	=====	=====

11. Legal Proceedings

The Company was sued by Amstrad PLC ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleged that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of \$186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for \$3.0 million in actual damages in addition to exemplary damages in an unspecified amount. The first trial of this case ended in a mistrial, with the jury deadlocked on the issue of liability. The case was retried, and on June 9, 1999, the jury returned a verdict against Amstrad and in favor of Western Digital. Amstrad has filed a notice of appeal from the judgment, and the Company has filed motions seeking recovery of a portion of its legal and other costs of defense. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, should the judgment be reversed on appeal, and if in a retrial of the case Amstrad were to prevail, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and/or liquidity. In addition, the costs of defending a retrial of the case may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in the U.S. District Court for the Central District of California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchases 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 agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and/or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

The Company and Censtor Corporation ("Censtor") have had discussions concerning royalties, if any, that might be due Censtor under a licensing agreement. Censtor has initiated arbitration procedures under the agreement seeking payment of royalties. In response, the Company has filed a complaint in federal court seeking a determination that the patents at issue are invalid. The Federal Court action has been stayed pending completion of the arbitration procedures. The Company does not believe that the outcome of this dispute will have a material adverse effect on its financial position, results of operations and/or liquidity.

In the normal course of business, the Company receives and makes inquiry 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 a license will be offered or that the terms of any license offered will be acceptable to the Company. Several such matters are currently pending. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial position, results of operations or liquidity of the Company.

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 believes that the final disposition of such matters will not have a material adverse effect on the Company's 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:

- o the financial prospects of the Company
- o the Company's financing plans
- o litigation and other contingencies potentially affecting the Company's financial position, operating results, or liquidity
- o trends affecting the Company's financial condition or operating results
- o the Company's strategies for growth, operations, product development and commercialization
- o 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.

RECENT DEVELOPMENTS

During the first half of 2000, the Company initiated a restructuring program directed at improving operational effectiveness and efficiency and reducing operational expenses worldwide. Charges related to these restructuring actions were accrued in the periods in which executive management committed to execute such actions. Committed actions for the six months ended December 31, 1999 included reorganization of operational and management responsibilities, transfer of hard drive production from Singapore to the Company's manufacturing facility in Malaysia, closure of the Company's Singapore operations, and taking property and equipment out of service and holding it for disposal. These actions resulted in a net reduction of worldwide headcount of approximately 1,600, of which approximately 140 were management, professional and administrative personnel and the remainder were manufacturing employees. In Asia, approximately 3,800 employees were reduced from the Company's Singapore operation and approximately 2,900 were added in Malaysia in connection with the transfer of production. Restructuring charges recorded in connection with these actions totaled \$57.8 million for the six-month period ended December 31, 1999. No additional restructuring charges for the Desktop product line were recorded during the third quarter ended March 31, 2000.

On August 9, 1999, the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for \$26 million (the approximate cost of the land). The Company has extended the current lease of its worldwide headquarters in Irvine, California, through January 2001, and has an option to extend the lease for an additional five-month period.

On September 27, 1999, the Company announced a recall of its 6.8GB per platter series of WD Caviar(R) desktop hard drives because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. Approximately 1.2 million units were manufactured with the faulty chip. Replacement of the chips involved rework of the printed circuit board assembly. Revenues of approximately \$100 million

related to the products that were recalled were reversed in the three months ended October 2, 1999. In addition, the Caviar product line was shut down for approximately two weeks, eliminating approximately \$70 million of forecasted revenue during the three months ended October 2, 1999. Cost of revenues for the three months ended October 2, 1999 included charges totaling \$37.7 million for estimated costs to recall and repair the affected drives, consisting of \$23.1 million for repair and retrieval, \$4.5 million for freight and other, and \$10.1 million for write-downs of related inventory. By March 31, 2000, the Company had completed rework on approximately 83% of the 1.2 million units and had resolved its claims against third parties resulting from the recall.

In December 1999, the Company agreed to sell a manufacturing facility in Tuas, Singapore for cash proceeds of \$11.0 million. In January 2000, the Company also agreed to sell its Rochester, Minnesota facility for cash proceeds of approximately \$29.7 million. The sales were recognized during the third quarter and the corresponding gain of \$3.1 million on the Tuas facility and the loss of \$1.9 million on the Rochester facility are included in the net restructuring charge for the third quarter ended March 31, 2000.

On January 19, 2000, the Company announced its plans to exit the enterprise hard drive market and shift its strategic focus and resources in the enterprise storage market to Internet-related data content management systems and management software. In connection with this decision, the Company closed its Rochester, Minnesota enterprise hard drive design center, and approximately 402 employees in the design center were laid off and given legally required notification and outplacement services. The exit from the enterprise market resulted in a restructuring charge of \$38.1 million during the three months ended March 31, 2000. The restructuring charge consisted of \$27.4 million for equipment write-offs (equipment taken out of service and held for disposal) including the loss on the sale of the Rochester facility, and \$10.7 million for severance, outplacement and other incremental costs associated with the closure. Reducing these charges is the gain realized on the sale of the Tuas facility of \$3.1 million, the favorable settlement of lease commitments in Singapore of \$5.3 million and favorable settlement of 1999 restructuring accruals of \$1.7 million. The Company estimates that the restructuring effort will be substantially completed by June 30, 2000. Also, as a direct result of the exit from the enterprise drive market, the Company had nonrecurring "special" charges of \$34.8 million during the three months ended March 31, 2000. These charges are included in costs of revenues and consist of vendor settlements, incremental warranty accruals and inventory write-downs resulting from the immediate termination of operations.

RESULTS OF OPERATIONS

Consolidated revenues were \$516.6 million for the three months ended March 31, 2000, a decrease of 23%, or \$151.9 million, from the three months ended March 27, 1999 and a decrease of 8%, or \$43.6 million, from the immediately preceding quarter. The lower revenues during the three months ended March 31, 2000 as compared to the corresponding period of the prior year and the immediately preceding quarter, resulted from the Company's decision in the third quarter of 2000 to exit the high end enterprise hard drive market and a decline in the average selling prices (ASP's) of hard drive products due to an intensely competitive hard drive market, partially offset by slight increases in desktop unit shipments.

Consolidated revenues were \$1.5 billion for the nine months ended March 31, 2000, down 28% from the nine months ended March 27, 1999. The lower revenues resulted from the exit from the enterprise hard drive market combined with lower ASPs and a decline in unit shipments of approximately 8%, which was largely due to the product recall in the three months ended October 2, 1999.

The gross profit for the three months ended March 31, 2000, totaled \$11.6 million, or 2% of revenue. This compares to a gross profit of \$39.9 million, or 6% of revenue, for the three months ended March 27, 1999, and \$20.2 million, or 4% of revenue, for the immediately preceding quarter. The gross profit for the current quarter included \$34.8 million of special charges directly relating to the exit from the enterprise hard drive market, as discussed above. Excluding the special charges, consolidated gross profit for the current quarter was \$46.4 million, or 9% of revenue. The increase in gross profit (excluding special charges) over the three months ended March 27, 1999 and the immediately preceding quarter was primarily the result of lower manufacturing costs due to recent restructurings and the transfer of all desktop production to a single, highly utilized facility in Malaysia. The consolidated gross profit for the nine months ended March 31, 2000 totaled \$39.0 million, or 3% of revenue (excluding special charges of \$72.5 million). This compares to a gross profit for the nine months ended March 27, 1999 of \$53.3 million, or 3% of revenue (excluding special charges of \$77 million). The decline in gross

profit for the current nine-month period was the result of lower volumes due to the product recall and lower ASPs, offset by the Company's restructuring and cost-cutting efforts.

Research and development ("R&D") expense for the three months ended March 31, 2000 was \$33.8 million, a decrease of \$28.9 million from the three months ended March 27, 1999 and a decrease of \$10.3 million from the immediately preceding quarter. R&D expense for the nine months ended March 31, 2000 was \$128.0 million, a decrease of \$37.0 million from the nine months ended March 27, 1999. The decrease in R&D expenses was primarily due to the Company's exit from the enterprise hard drive market and its expense reduction efforts, particularly expenses associated with hard disk drive development, partially offset by increased spending at Connex and Sagetree, the Company's subsidiaries, and other new venture development efforts. Also included in R&D spending for the three and nine-months ended March 27, 1999 was \$12 million of special charges associated with the acquisition of in process R&D.

Selling, general and administrative ("SG&A") expense in the three months ended March 31, 2000, was \$34.0 million, a decrease of \$12.2 million from the three months ended March 27, 1999 and a decrease of \$5.1 million from the immediately preceding quarter. The decrease in SG&A expense for the three months ended March 31, 2000 compared to the three months ended March 27, 1999 and the immediately preceding quarter was primarily due to the Company's exit from the enterprise hard drive market and its expense reduction efforts, particularly SG&A expenses associated with the Company's hard disk drive business. The decrease was partially offset by increased spending at Connex, Sagetree and other of the Company's developing ventures. SG&A expense was \$116.9 million for the nine months ended March 31, 2000, a decrease of \$34.5 million from the nine months ended March 27, 1999. The decrease was the result of the exit from the enterprise hard drive market, expense reduction efforts, and the nonrecurrence of a \$7.5 million special charge on terminated hedging contracts recorded in SG&A expense during the nine months ended March 27, 1999.

Net interest and other income for the three months ended March 27, 2000 was \$13.5 million, compared to net interest expense of \$4.2 million for the three months ended March 27, 1999 and net interest expense of \$3.0 million in the immediately preceding quarter. The increase in net interest and other income for the three months ended March 31, 2000 was due to a \$14.7 million gain on disposition of certain investment securities and lower interest expense on the Company's convertible debentures (the average carrying value of the Company's convertible debentures was lower due to the debenture redemptions which occurred during the immediately preceding quarter). Net interest and other income was \$5.1 million for the nine months ended March 31, 2000 as compared to net interest expense of \$10.1 million for the nine months ended March 27, 1999. The increase in net interest and other income was due to the \$14.7 million gain and a decrease in interest expense on the Company's convertible debentures.

The Company initiated significant restructuring efforts during the nine months ended March 31, 2000. As a result, net restructuring charges of approximately \$28.0 million and \$85.8 million were recorded during the three and nine months ended March 31, 2000, respectively. The charges related to severance and outplacement, the write-off of fixed assets taken out of service and to be disposed of, lease cancellation and other charges, as discussed above.

During the nine months ended March 31, 2000, the Company issued common stock in exchange for its convertible debentures which were retired in non-cash transactions. These redemptions were private, individually negotiated transactions with certain institutional investors. The redemptions resulted in extraordinary gains of \$166.9 million during the six months ended December 31, 1999. There were no redemptions during the three months ended March 31, 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.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2000, the Company had cash and cash equivalents of \$202.1 million as compared to \$226.1 million at July 3, 1999 and \$163.7 million at December 31, 1999. Net cash used in operations was \$19.5 million and \$120.8 million for the three and nine months ended March 31, 2000 respectively, as compared to \$38.9 million and \$87.3 million for the comparable periods of the prior year. Net cash used in operations for

the nine months ended March 31, 2000 increased by \$33.5 million as compared to the nine months ended March 27, 1999, due to higher expenditures for restructuring activities and the product recall.

Operating cash flows provided by changes in working capital amounted to \$6.2 million and \$119.3 million for the three and nine months ended March 31, 2000, respectively and reflect the Company's management of operating assets and liabilities during the periods. For the three months ended March 31, 2000, the Company's days of sales outstanding ("DSO") was 31 days, inventory turned 21 times and days of payables outstanding was 52 days.

Excluding charges and cash used for restructuring and other nonrecurring activities, operations provided net cash of \$18.2 million for the three months ended March 31, 2000 as compared to usage of \$8.0 million for the three months ended December 31, 1999. Cash used for restructuring and other nonrecurring activities was \$37.7 million for the three months ended March 31, 2000 and consisted of expenditures for severance and outplacement, lease cancellations and product recall costs.

Other uses of cash during the nine months ended March 31, 2000 included the repayment of bank debt of \$50.0 million and net capital expenditures of \$17.1 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 proceeds of \$93.8 million received upon issuance of 20.5 million shares of the Company's stock under the Company's equity facility, and \$66.8 million received on sales of real property during the period.

The Company anticipates that capital expenditures for the remainder of 2000 will not be more than \$15 million and will relate to accommodating new technologies and new product lines, normal replacement of existing assets and expansion of production capabilities in Malaysia. The Company also anticipates cash expenditures of approximately \$10.0 million to be paid in the remaining three months of 2000 related to the Company's restructuring programs, primarily for severance and outplacement costs, lease cancellation and other costs of vacating leased properties, and settlements with vendors on existing purchase orders related to the Company's exit from its enterprise hard drive market.

The Company's credit facility matured on March 31, 2000. The remaining balance on the term loan was repaid using the proceeds from the equity facility during the three months ended March 31, 2000. The Company has a commitment for a new Senior Credit Facility that will provide up to a \$150 million revolving credit line (depending on a borrowing base calculation). The new Senior Credit Facility will be secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets of the Company, excluding the Company's Connex and Sagetree subsidiaries. At the option of the Company, borrowings 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. The Company anticipates that the new Senior Credit Facility will be completed by June 30, 2000.

Under an existing equity facility, the Company may issue shares of common stock to institutional investors for cash, in monthly increments of \$12.5 million. The facility provides for up to \$150.0 million in cash proceeds of which \$93.8 million had been utilized as of March 31, 2000. Shares sold under the facility are at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25.

During the six months ended December 31, 1999, the Company issued 26.7 million shares of common stock in exchange for Debentures with a book value of \$284.1 million, and an aggregate principal amount at maturity of \$735.6 million. These redemptions were private, individually negotiated transactions with certain institutional investors. The redemptions resulted in extraordinary gains of \$166.9 million during the six months ended December 31, 1999. There were no redemptions during the three months ended March 31, 2000. As of March 31, 2000, the book value of the remaining outstanding Debentures was \$222.6 million and the aggregate principal amount at maturity was \$561.6 million.

The Company expects to continue to incur operating losses in 2000. The Company had a shareholders' deficiency of \$108.8 million as of March 31, 2000. However, the Company had cash balances of \$202.1 million and working capital of \$8.8 million as of March 31, 2000. In addition, the Company has significantly restructured its operations and has other sources of liquidity available. In light of these conditions, the company has the following plans and other options:

- o The Company's ongoing operating expenses and capital expenditures have been reduced substantially as compared to historical levels due to:
 - Recent restructurings;
 - Reduced general and administrative spending; and
 - Lower fixed spending resulting from the closure of its Santa Clara, California disk media operations, its disk drive manufacturing facilities in Tuas and Chai Chee, Singapore, and its enterprise hard drive design center in Rochester, Minnesota.
- o The Company has the following additional sources of liquidity available to it:
 - \$56.2 million remaining available under the Equity Facility;
 - Other equity investments that may be disposed of during the next twelve months, including 6.5 million shares of Komag common stock and 1.3 million shares of Vixel common stock with a combined market value of approximately \$28.4 million as of April 28, 2000.
 - The Company has a commitment for a new Senior Credit Facility that will provide up to a \$150 million revolving credit line (depending on a borrowing base calculation). The Company anticipates that the new Senior Credit Facility will be completed by June 30, 2000.
 - The Company is also pursuing other sources of private equity financing for its developing subsidiaries.

Based on the above factors, the Company believes its current cash balances, its existing equity facility, and other liquidity sources currently available to it, will be sufficient to meet its working capital needs through the next twelve months. There can be no assurance that a new bank facility will be obtained or the equity facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Risk factors relating to Western Digital particularly."

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 was effective for all fiscal quarters for fiscal years beginning after June 15, 1999. In August 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133, An Amendment of FASB Statement No. 133" ("SFAS 137"), which defers the effective date of SFAS 133 to all fiscal quarters for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. Application of SFAS 133 is not expected to have a material impact on the Company's consolidated financial position, results of operations or liquidity.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 ("SAB101") "Revenue Recognition in Financial Statements". This Staff Accounting Bulletin summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company does not expect the adoption of SAB101 to have a material impact on the Company's consolidated results of operations.

YEAR 2000

On January 1, 2000, the Company incurred nominal impact on its products, equipment, computer systems and applications as a result of the Year 2000 issue. The Company attributes this to its Year 2000 readiness efforts. As of December 31, 1999, systems remediation and integration testing and development of the Company's contingency plans had been completed. Supplier management is an ongoing process, and no material impact was felt from lack of supplier readiness at January 1, 2000. Although the Company did not experience any material problems related to the Year 2000 issue, there can be no assurances that problems

relating to the Year 2000 issue will not manifest themselves in the future. Expenditures related to the Year 2000 project, excluding normal replacement of existing capital assets, totaled approximately \$12.2 million.

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:

- o consistently maintain or improve our time-to-market performance with our new products
- o produce these products in sufficient volume within our rapid product cycle
- o qualify these products with key customers on a timely basis by meeting our customers' performance and quality specifications, or
- o 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, and we expect this trend to continue. 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.

Our average selling prices and our revenue are declining.

We expect that our average selling prices for hard disk 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.

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. Some of our competitors are developing hybrid storage devices that combine magnetic and optical technologies, but

we have decided not to pursue this technology at this time. 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.

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 1997, we significantly increased our share of the desktop market, but these gains were lost during 1998 and 1999. If our market share erodes further, it would likely harm our operating results.

Our prices and margins are subject to declines due to unpredictable end-user demand and oversupply of hard disk 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. If intense price competition occurs, we may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in the second half of 1998 and throughout 1999, as a result of excess inventory in the desktop hard drive market, aggressive pricing and corresponding margin reductions materially adversely affected our operating results.

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. If we do not develop lower cost hard drives that can successfully compete in this market, our market share will likely fall, which could harm our operating results.

Furthermore, 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. While we are investing development resources in designing hard drive products for new audio-visual applications, it is too early to assess the impact of these new applications on future demand for hard drive products.

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, for the nine-month period ended March 31, 2000, sales to our top 10 customers accounted for approximately 58% of revenues. These customers have a wide variety of suppliers to choose from and therefore can make substantial demands on

us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed. For example, this occurred early in the third quarter of 2000 in our enterprise hard drive market and is one of the factors which led to the Company's decision to exit the enterprise hard drive market and close its Rochester, Minnesota facility.

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 are doing as a result of our decision to exit the enterprise hard drive market.

In April 1999, we entered into a three year volume purchase agreement with Komag under which we buy a substantial portion of our media components from Komag. This strategic relationship has reduced our media component costs; however, it has increased our dependence on Komag as a supplier. Our future operating results will 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. Any disruption in Komag's ability to manufacture and supply us with media would likely harm our operating results.

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 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:

- o obtaining requisite United States and foreign governmental permits and approvals
- o currency exchange rate fluctuations or restrictions
- o political instability and civil unrest

- o transportation delays or higher freight rates
- o labor problems
- o trade restrictions or higher tariffs
- o exchange, currency and tax controls and reallocations
- o 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 in data and content management, storage and communication takes us into new markets.

We have recently entered the storage subsystem market through our Connex subsidiary. In this market we are facing the challenges of building volume and market share in a market which is new to us but which has several established and well-funded competitors. There is already significant competition for skilled engineers, both in the hardware and software areas, in this market. Our success will depend on Connex's ability to develop, introduce and achieve market acceptance of new products, applications and product enhancements, and to attract and retain skilled engineers. Additionally, our competitors in this market have established intellectual property portfolios. Our success will also depend on our ability to license existing intellectual property or create new innovations. Moreover, our competitors' established intellectual property portfolios increase our risk of intellectual property litigation.

We are also developing hard drives and storage devices for the emerging audio-visual market. 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 audio-visual content will materialize or support all of these competitors.

We have recently 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.

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 several 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 not 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:

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

- o accruals for warranty against product defects
- o price protection adjustments on products sold to resellers and distributors
- o inventory adjustments for write-down of inventories to fair value
- o reserves for doubtful accounts
- o 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:

- o actual or anticipated fluctuations in our operating results
- o 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
- o new products introduced by us or our competitors
- o periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures
- o developments with respect to patents or proprietary rights
- o conditions and trends in the hard drive, data and content management, storage and communication industries
- o 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. Our prior borrowing agreement with our banks matured on March 31, 2000, and we have received a commitment letter for a new credit facility. As of the date hereof, the definitive agreement for the new credit facility has not been finalized. 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 insure that additional financing will be available to us or available on favorable terms. An equity financing could also be dilutive to our existing stockholders.

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 of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. A majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed twelve months. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transaction is consummated. 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 has discontinued hedging its Malaysian Ringgit currency risk. Future hedging of this currency will depend on currency conditions in Malaysia. The imposition of exchange controls by the Malaysian government resulted in a \$7.5 million realized loss on terminated hedging contracts in the first quarter of 1999. As a result of the closure of the

Company's Singapore operations in 2000, the Company has also discontinued its hedging program related to the Singapore Dollar.

As of March 31, 2000, the Company had outstanding the following purchased foreign currency forward exchange contract (in millions, except average contract rate):

	MARCH 31, 2000		
	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	UNREALIZED GAIN*
	(U.S. DOLLAR EQUIVALENT AMOUNTS)		
Foreign currency forward contracts:			
British Pound Sterling.....	\$ 3.1	1.60	--

* Unrealized gains on contracts are deferred and recognized in the results of operations in the period in which the hedged transactions are consummated, at which time the gain is offset by the increased U.S. Dollar value of the local currency operating expense.

During the three and nine months ended March 31, 2000 and March 27, 1999 total realized transaction and forward exchange contract currency gains and losses (excluding the \$7.5 million realized loss on the Malaysian Ringgit realized in the first quarter of 1999), were immaterial to the consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates (up to approximately 25%) would materially affect the Company's consolidated financial statements.

DISCLOSURE ABOUT OTHER MARKET RISKS

Fixed Interest Rate Risk

At March 31, 2000, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately \$85.6 million, compared to the related book value of \$222.6 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 various note receivables from other companies. All of the notes carry a fixed rate of interest. Therefore a significant change in interest rates would not impact the Company's consolidated financial statements.

Variable Interest Rate Risk

The Company's credit facility matured on March 31, 2000 and the Company has a commitment for a new Senior Credit Facility. The Company anticipates that the new Senior Credit Facility will be completed by June 30, 2000. The Company will not be able to borrow under the new credit facility until its completion. The Company currently has no variable interest rate risk.

Fair Value Risk

The Company owns approximately 10.8 million shares of Komag, Inc. common stock. The stock is restricted as to the percentage of total shares which can be sold in a given time period. The unrestricted portion of the total Komag shares acquired represents the shares which can be sold within one year. The Company determines, on a quarterly basis, the fair market value of the unrestricted Komag shares and records an unrealized gain or loss resulting from the difference in the fair market value of the unrestricted shares as of the previous quarter end and the fair market value of the unrestricted shares on the measurement date. As of March 31, 2000, a \$3.6 million total accumulated unrealized gain has been recorded in accumulated other

comprehensive income (loss). If the Company sells all or a portion of this 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 of March 31, 2000, the quoted market value of the Company's Komag common stock holdings, without regard to discounts due to sales restrictions, was \$40.9 million. As a result of market conditions, the market value had declined to \$31.7 million as of April 28, 2000. Due to market fluctuations, an additional decline in the stock's fair market value could occur. A significant decline (50% or more) could materially adversely impact the Company's consolidated financial statements.

The Company owns approximately 1.3 million shares of Vixel common stock. The shares were restricted as to sale until March 28, 2000 pursuant to an agreement with Vixel's underwriters. 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 March 31, 2000, a \$21.7 million total accumulated unrealized gain has been recorded in accumulated other comprehensive income (loss). If the Company sells all or a portion of this common stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. As a result of market conditions, the market value of the shares had declined from \$21.7 million as of March 31, 2000 to \$9.4 million as of April 28, 2000. Due to market fluctuations, an additional 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 financial position, results of operations and/or liquidity. Accordingly, actual results could differ materially from those projected in the forward-looking statements.

The Company was sued by Amstrad PLC ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleged that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of \$186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for \$3.0 million in actual damages in addition to exemplary damages in an unspecified amount. The first trial of this case ended in a mistrial, with the jury deadlocked on the issue of liability. The case was retried, and on June 9, 1999, the jury returned a verdict against Amstrad and in favor of Western Digital. Amstrad has filed a notice of appeal from the judgment, and the Company has filed motions seeking recovery of a portion of its legal and other costs of defense. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, should the judgment be reversed on appeal, and if in a retrial of the case Amstrad were to prevail, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and/or liquidity. In addition, the costs of defending a retrial of the case may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in the U.S. District Court for the Central District of California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchases 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 agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and/or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

The Company and Censtor Corporation ("Censtor") have had discussions concerning royalties, if any, that might be due Censtor under a licensing agreement. Censtor has initiated arbitration procedures under the agreement seeking payment of royalties. In response, the Company has filed a complaint in federal court seeking a determination that the patents at issue are invalid. The Federal Court action has been stayed pending completion of the arbitration procedures. The Company does not believe that the outcome of this dispute will have a material adverse effect on its financial position, results of operations and/or liquidity.

In the normal course of business, the Company receives and makes inquiry 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 a license will be offered or that the terms of any license offered will be acceptable to the Company. Several such matters are currently pending. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the consolidated financial position, results of operations and/or liquidity of the Company.

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 believes that the final disposition of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations and/or liquidity.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

- 10.19 Retention Agreement effective September 21, 1998 between registrant and Teresa A. Hopp
 - 10.32.4 Sixth Amendment to the Company's Retirement Savings and Profit Sharing Plan
 - 10.32.5 Seventh Amendment to the Company's Retirement Savings and Profit Sharing Plan
 - 10.34 Western Digital Broad-Based Stock Incentive Plan
 - 10.44 Amended and Restated Purchase Agreement dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation
 - 27 Financial Data Schedule
-

(b) REPORTS ON FORM 8-K:

On January 19, 2000, the Company filed a current report on Form 8-K to file its press release dated January 13, 2000, announcing the appointment of Matthew E. Massengill as President and Chief Executive Officer and to file its press release dated January 19, 2000, announcing its decision to exit the enterprise hard drive market.

On January 21, 2000, the Company filed a current report on Form 8-K to file its press release dated January 20, 2000, announcing the expected range of the net loss and loss per share for its second quarter.

On January 31, 2000, the Company filed a current report on Form 8-K to file its press release dated January 25, 2000, announcing its second quarter results.

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/ Teresa Hopp

Teresa Hopp
Senior Vice President
and Chief Financial Officer

Date: May 15, 2000

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
10.19	Retention Agreement effective September 21, 1998 between registrant and Teresa A. Hopp
10.32.4	Sixth Amendment to the Company's Retirement Savings and Profit Sharing Plan
10.32.5	Seventh Amendment to the Company's Retirement Savings and Profit Sharing Plan
10.34	Western Digital Broad-Based Stock Incentive Plan
10.44	Amended and Restated Purchase Agreement dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation
27	Financial Data Schedule

September 15, 1998

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

Dear Teresa,

It is with great pleasure that we at Western Digital Corporation extend this offer of employment to you. Your position will be Vice President, Finance, Personal Storage Division, reporting to Duston Williams, Senior Vice President and Chief Financial Officer. This is an exempt position and will pay an annualized base salary of \$200,000.00, paid bi-weekly.

Contingent upon approval by the Shareholders and Board of Directors, we will recommend a stock option grant amount of 50,000 shares, subject to the provision of Western Digital's Stock Option Agreement. In the event of a corporate change of control, all remaining unvested options, specific to this grant, would immediately vest.

You will be eligible to participate in the FY'99 Management Incentive Plan. Funding will be based on both corporate and group results. Your participation will be based on your individual accomplishments and contingent upon approval by the Western Digital Compensation Committee.

You will receive a sign-on bonus of \$50,000.00, payable within three weeks of your start date and considered taxable income to you. If you voluntarily terminate prior to the completion of two full years of employment at Western Digital, this bonus shall be repaid to the Company.

This offer is contingent upon successful completion of all pre-employment criteria as outlined on Western Digital's Application for Employment which is attached. Please see the attached information regarding drug screening.

As a condition of employment, immediately upon date of hire, you will be required to sign an Employee Agreement governing inventions, proprietary information and such other subject matter which the company considers vital to protect its operation.

You will be eligible on your first day of employment for our Executive Benefits Program. You will be eligible to join the Western Digital Savings (401(k)) Plan immediately. You will receive a complete benefits summary during your orientation on your first day of employment.

Teresa A. Hopp
Page 2

In the event of a) a change of corporate control, b) substantial change in job content, or c) should your position be eliminated due to downsizing, you will receive a twelve (12) month severance package. The severance package is defined as your base salary plus benefit continuation.

Please return the signed and dated original of this letter indicating your acceptance by either dropping it by the office, faxing it to 932-7837 or bringing it with you first thing Monday morning. We will provide you with a signed copy for your records. If you should have any questions, please do not hesitate to call.

Sincerely,

Jack Van Berkel
Vice President, Human Resources

ACCEPTANCE:

Signature Date

DATE YOU PLAN TO START WORK:

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

WHEREAS, Western Digital Corporation (the "Company") previously adopted the Western Digital Corporation Savings and Profit Sharing Plan (the "Plan"); and

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

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

WHEREAS, the Company desires to amend the Plan in certain respects.

NOW, THEREFORE, the Plan is amended as follows:

1. Effective January 1, 2000, Section 5.3.1. shall be amended in its entirety as follows:

5.3.1. As of the last day of a contribution cycle (as such term is defined in 5.3.4. below), the Employer shall make a Basic Matching Contribution on behalf of each "Eligible Participant," as defined in Subsection 5.3.3. below, who is an Eligible Employee of such Employer. A Basic Matching Contribution on behalf of an Eligible Participant under this Section 5.3. shall be in an amount equal to fifty percent (50%) of the Eligible Participant's Pre-Tax Contributions for the contribution cycle which do not exceed five percent (5%) of the Eligible Participant's Compensation for the contribution cycle, not to exceed a maximum aggregate Basic Matching Contribution of \$2,000 for any calendar year.

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

IN WITNESS WHEREOF, the Company has caused this Sixth Amendment to the Plan to be executed by its duly authorized officer on this 27th day of January, 2000.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius
Title: Vice President

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

WHEREAS, Western Digital Corporation (the "Company") previously adopted the Western Digital Corporation Savings and Profit Sharing Plan (the "Plan"); and

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

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

WHEREAS, the Company desires to amend the Plan in certain respects.

NOW, THEREFORE, the Plan is amended as follows:

1. Effective January 1, 2000, Section 2.14.2.5 shall be amended in its entirety to read as follows:

2.14.2.5. any person who is recorded on the books and records of an Employer or Affiliated Company as an independent contractor, summer intern, consultant, or temporary employee; a worker provided by a third-party temporary staffing agency; or any person with respect to whom a written agreement governing the relationship between such person and an Employer or Affiliated Company provides in substance that such person shall not be an Eligible Employee hereunder; and

2. Effective January 1, 2000, a new Section 2.14.2.6 shall be added which reads as follows:

2.14.2.6 any person who is not treated by an Employer or an Affiliated Company as a common law employee without regard to the characterization or recharacterization of such individual's status by any court or governmental agency.

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

IN WITNESS WHEREOF, the Company has caused this Seventh Amendment to the Plan to be executed by its duly authorized officer on this ____ day of March, 2000.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL A. CORNELIUS

Name: Michael A. Cornelius

Title: Vice President

WESTERN DIGITAL CORPORATION

BROAD-BASED STOCK INCENTIVE PLAN

SECTION 1. PURPOSE OF PLAN

The purpose of this Broad-Based Stock Incentive Plan ("Plan") of Western Digital Corporation, a Delaware corporation, is to enable the Company, as defined in Section 2.2(a)(ii) hereof, to attract, retain and motivate its key employees and other personnel, and to further align the interests of such persons with those of the shareholders of the Company, by providing for or increasing their proprietary interest in the Company. This plan is intended to qualify as "broadly-based" under the New York Stock Exchange Shareholder Approval Policy.

SECTION 2. ADMINISTRATION OF THE PLAN

2.1 Composition of Committee. The Plan shall be administered by the Compensation Committee of the Board of Directors, and/or by the Board of Directors or another committee of the Board of Directors of the Company, as appointed from time to time by the Board of Directors (any such administrative body, the "Committee"). The Board of Directors shall fill vacancies on, and from time to time may remove or add members to, the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent. Notwithstanding the foregoing, with respect to any Award that is not intended to satisfy the conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") or Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended (the "Code"), the Committee may appoint one or more separate committees (any such committee, a "Subcommittee") composed of one or more directors of the Company (who may but need not be members of the Committee) and may delegate to any such Subcommittee(s) the authority to grant Awards, as defined in Section 5.1 hereof, under the Plan to Eligible Employees, as defined in Section 4 hereof, to determine all terms of such Awards, and/or to administer the Plan or any aspect of it. Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee. The Committee may designate or delegate authority to the Secretary of the Company or other Company employees to assist the Committee in the administration of the Plan, and may grant authority to such persons to execute agreements evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Committee or the Company.

2.2 Powers of the Committee. Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan with respect to the Awards over which such Committee has authority, including, without limitation, the following:

(a) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; provided that, unless the Committee shall specify otherwise, for purposes of this Plan, and the term "Company" shall mean Western Digital Corporation and its subsidiaries and affiliates, unless the context otherwise requires;

(b) to determine which persons are Eligible Employees (as defined in Section 4 hereof), to which of such Eligible Employees, if any, Awards shall be granted hereunder, to make Awards under the Plan and to determine the terms of such Awards and the timing of any such Awards;

(c) to determine the number of Shares subject to Awards and the exercise or purchase price of such Shares;

(d) to establish and verify the extent of satisfaction of any performance goals applicable to Awards;

(e) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical);

(f) to determine whether, and the extent to which, adjustments are required pursuant to Section 11 hereof;

(g) to interpret and construe this Plan, any rules and regulations under the Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and

(h) to make all other determinations deemed necessary or advisable for the administration of the Plan.

2.3 Determinations of the Committee. All decisions, determinations and interpretations by the Committee or the Board regarding the Plan shall be final and binding on all Eligible Employees and Participants, as defined in Section 4 hereof. The Committee or the Board, as applicable, shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer of the Company or Eligible Employee and such attorneys, consultants and accountants as it may select.

SECTION 3. STOCK SUBJECT TO PLAN

3.1 Aggregate Limits. Subject to adjustment as provided in Section 10, at any time, the aggregate number of shares of the Company's common stock, \$0.01 par value ("Shares"), issued pursuant to all Awards granted under this Plan shall not exceed 20,000,000. The Shares subject to the Plan may be either Shares reacquired by the Company, including Shares purchased in the open market, or authorized but unissued Shares.

3.2 Issuance of Shares. For purposes of Section 3.1, the aggregate number of Shares issued under this Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Award and not returned to the Company upon cancellation, expiration or forfeiture of an Award or delivered (either actually or by attestation) in payment or satisfaction of the purchase price, exercise price or tax obligation of an Award.

SECTION 4. PERSONS ELIGIBLE UNDER PLAN

Any person who is an (i) employee, (ii) prospective employee, (iii) consultant, or (iv) advisor of the Company (an "Eligible Employee") shall be eligible to be considered for the grant of Awards hereunder. For purposes of this Plan, the Chairman of the Board's status as an Employee shall be determined by the Board. For purposes of the administration of Awards, the term "Eligible Employee" shall also include a former Eligible Employee or any person (including any estate) who is a beneficiary of a former Eligible Employee. A "Participant" is any Eligible Employee to whom an Award has been made and any person (including any estate) to whom an Award has been assigned or transferred pursuant to Section 9.1.

SECTION 5. PLAN AWARDS

5.1 Award Types. The Committee, on behalf of the Company, is authorized under this Plan to enter into certain types of arrangements with Eligible Employees and to confer certain benefits on them. The following such arrangements or benefits are authorized under the Plan if their terms and conditions are not inconsistent with the provisions of the Plan: Stock Options, Restricted Stock and Stock Units. Such arrangements and benefits are sometimes referred to herein as "Awards." The authorized types of arrangements and benefits for which Awards may be granted are defined as follows:

Stock Option Awards: A Stock Option is a right granted under Section 6 to purchase a number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in or determined pursuant to the document(s) evidencing the Award (the "Option Agreement"). Options intended to qualify as Incentive Stock Options ("ISOs") pursuant to Code Section 422 may not be granted under this Plan.

Restricted Stock Awards: Restricted Stock is an award of Shares made under Section 7, the grant, issuance, retention and/or vesting of which is subject to such conditions as are expressed in the document(s) evidencing the Award (the "Restricted Stock Agreement").

Stock Unit Awards: A Stock Unit Award is an award of a right to receive the fair market value of one share of Common Stock made under Section 8, the grant, issuance, retention and/or vesting of which is subject to such conditions as are expressed in the document(s) evidencing the Award (the "Stock Unit Agreement").

5.2 Grants of Awards. An Award may consist of one such arrangement or benefit or two or more of them in tandem or in the alternative.

SECTION 6. STOCK OPTION AWARDS

The Committee may grant an Option or provide for the grant of an Option, either from time-to-time in the discretion of the Committee or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance goals, the satisfaction of an event or condition within the control of the recipient of the Award, within the control of others or not within any person's control.

6.1 Option Agreement. Each Option Agreement shall contain provisions regarding (a) the number of Shares which may be issued upon exercise of the Option, (b) the purchase price of the Shares and the means of payment for the Shares, (c) the term of the Option, (d) such terms and conditions of exercisability as may be determined from time to time by the Committee, (e) restrictions on the transfer of the Option and forfeiture provisions, and (f) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee.

6.2 Option Price. The purchase price per Share of the Shares subject to each Option granted under the Plan shall equal or exceed 100% of the fair market value of such Stock on the date the Option is granted, unless the Committee determines otherwise.

6.3 Option Term. The "Term" of each Option granted under the Plan shall not exceed ten (10) years from the date of its grant.

6.4 Option Vesting. Options granted under the Plan shall be exercisable at such time and in such installments during the period prior to the expiration of the Option's Term as determined by the Committee in its sole discretion. The Committee shall have the right to make the timing of the ability to exercise any Option granted under the Plan subject to such performance requirements as deemed appropriate by the Committee. At any time after the grant of an Option the Committee may, in its sole discretion, reduce or eliminate any restrictions surrounding any Participant's right to exercise all or part of the Option.

6.5 Option Exercise.

(a) Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional Shares and the Committee may require, by the terms of the Option Agreement, a partial exercise to include a minimum number of Shares.

(b) Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery to the representative of the Company designated for such purpose by the Committee all of the following: (i) notice of exercise in such form as the Committee authorizes specifying the number of Shares to be purchased by the Participant, (ii) payment or provision for payment of the exercise price for such number of Shares, (iii) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act of 1933, as amended, and any other federal, state or foreign securities laws or regulations, (iv) in the event that the Option shall be exercised pursuant to Section 9.1 by any person or persons other than the Eligible Employee, appropriate proof of the right of such person or persons to exercise the Option, and (v) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to provide for the tax withholding pursuant to Section 12. Unless provided otherwise by the Committee, no Participant shall have any right as a shareholder with respect to any Shares purchased pursuant to any Option until the registration of Shares in the name of such person, and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such Shares are so registered.

(c) Payment of Exercise Price. The exercise price of an Option may be paid in such form as authorized by the Committee, including, without limiting the generality of the foregoing, in the form of one or more of the following, either through the terms of the Option Agreement or at the time of exercise of an Option: (i) cash or certified or cashiers' check, (ii) shares of capital stock of the Company that have been held by the Participant for such period of time as the Committee may specify, (iii) other property deemed acceptable by the Committee, (iv) a reduction in the number of Shares or other property otherwise issuable pursuant to such Option, or (v) any combination of (i) through (iv).

SECTION 7. RESTRICTED STOCK AWARDS

Restricted Stock consists of an award of Shares, the grant, issuance, retention and/or vesting of which shall be subject to such terms and conditions as the Committee deems appropriate.

7.1 Restricted Stock Award. Each Restricted Stock Award shall reflect, to the extent applicable (a) the number of Shares subject to such Award or a formula for determining such, (b) the time or times at which Shares shall be granted or issued and/or become retainable or vested, and the conditions or restrictions on such Shares, (c) the performance criteria, if any, and level of achievement versus these criteria which shall determine the number of Shares granted, issued, retainable and/or vested, (d) the period, if any, as to which performance shall be measured for determining achievement of performance, (e) forfeiture provisions, and (f) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee.

7.2 Restrictions and Performance Criteria. The grant, issuance, retention and/or vesting of each Restricted Stock Award may but need not be subject to such performance criteria and level of achievement versus these criteria as the Committee shall determine, which criteria may be based on financial performance, personal performance evaluations and/or completion of service by the Participant.

7.3 Timing and Form of Award. The Committee shall determine the timing of award of any Restricted Stock Award. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the award or vesting of any Restricted Stock to be deferred to a specified date or event. The Committee may provide for a Participant to have the choice for his or her Restricted Stock, or such portion thereof as the Committee may specify, to be granted in whole or in part in Stock Units.

7.4 Discretionary Adjustments. Notwithstanding satisfaction of any completion of service or performance goals, the number of Shares granted, issued, retainable and/or vested under a Restricted Stock Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

SECTION 8. STOCK UNITS

8.1 Stock Units. A "Stock Unit" is a bookkeeping entry representing an amount equivalent to the fair market value of one share of Common Stock, also sometimes referred to as a "restricted unit" or "shadow stock". Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Committee.

8.2 Stock Unit Awards. Each Stock Unit Award shall reflect, to the extent applicable (a) the number of Stock Units subject to such Award or a formula for determining such, (b) the time or times at which Stock Units shall be granted or issued and/or become retainable or vested, and the conditions or restrictions on such Stock Units, (c) the performance criteria, if any, and level of achievement versus these criteria which shall determine the number of Stock Units granted, issued, retainable and/or vested, (d) the period, if any, as to which performance shall be measured for determining achievement of performance, (e) forfeiture provisions, and (f) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee. Stock Units may also be issued upon exercise of Options, and may be issued in lieu of Restricted Stock or any other Award that the Committee elects to be paid in the form of Stock Units.

8.3 Restrictions and Performance Criteria. The grant, issuance, retention and or vesting of each Stock Unit may but need not be subject to such performance criteria and level of achievement versus these criteria as the Committee shall determine, which criteria may be based on financial performance, personal performance evaluations and/or completion of service by the Participant.

8.4 Timing and Form of Award. The Committee shall determine the timing of award of any Stock Unit. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the award or vesting of any Stock Unit to be deferred to a specified date or event. The Committee may provide for a Participant to have the choice for his or her Stock Unit, or such portion thereof as the Committee may specify, to be granted in whole or in part in Shares.

8.5 Settlement of Stock Units. The Committee may provide for Stock Units to be settled in cash or Shares (at the election of the Company or the Participant, as specified by the Committee) and to be made at such other times as it determines appropriate or as it permits a Participant to choose. The amount of cash or Shares, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents, as the case may be, which may be valued as if reinvested in Shares. Until a Stock Unit is settled, the number of Shares represented by a Stock Unit shall be subject to adjustment pursuant to Section 10.

8.6 Discretionary Adjustments. Notwithstanding satisfaction of any completion of service or performance goals, the number of Stock Units granted, issued, retainable and/or vested under a Stock Unit Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

SECTION 9. OTHER PROVISIONS APPLICABLE TO AWARDS

9.1 Transferability. Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly states that it is transferable as provided hereunder, no Award granted under the Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner, other than by will or the laws of descent and distribution, prior to the vesting or lapse of any and all restrictions applicable to any Shares issued under an Award. The Committee may in its sole discretion grant an Award or amend an outstanding Award to provide that the Award is transferable or assignable to a Permitted Transferee (as defined below), provided that following any such transfer or assignment the Award will remain subject to substantially the same terms applicable to the Award while held by the Eligible Employee, as modified as the Committee in its sole discretion shall determine appropriate, and the Participant shall execute an agreement agreeing to be bound by such terms. As used herein, the term "Permitted Transferee" shall mean (i) in the case of a transfer without the payment of any consideration, any "family member" as such term is defined in Section 1(a)(5) of the General Instructions to Form S-8 under the 1933 Act as in effect on the date this Plan is adopted, (ii) any transfer described in clause (ii) of Section 1(a)(5) of the General Instructions to Form S-8 under the 1933 Act as in effect on the date this Plan is adopted, and (iii) upon the Eligible Employee's death, the Eligible Employee's executors, administrators, testamentary trustees, legatees and beneficiaries.

9.2 Dividends. Unless otherwise provided by the Committee, no adjustment shall be made in Shares issuable under Awards on account of cash dividends which may be paid or other rights which may be issued to the holders of Shares prior to their issuance under any Award. The Committee shall specify whether dividends or dividend equivalent amounts shall be paid to any Participant with respect to the Shares subject to any Award that have not vested or been issued or that are subject to any restrictions or conditions on the record date for dividends.

9.3 Agreements Evidencing Awards. The Committee shall, subject to applicable law, determine the date an Award is deemed to be granted, which for purposes of this Plan shall not be affected by the fact that an Award is contingent on subsequent stockholder approval of the Plan. The Committee or, except to the extent prohibited under applicable law, its delegate(s) may establish the terms of agreements evidencing Awards under this Plan and may, but need not, require as a condition to any such agreement's effectiveness that such agreement be executed by the Participant and that such Participant agree to such further terms and conditions as specified in such agreement. The grant of an Award under this Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in this Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the Agreement evidencing such Award.

9.4 Tandem Stock or Cash Rights. Either at the time an Award is granted or by subsequent action, the Committee may, but need not, provide that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Award; provided, however, that the number of such rights granted under any Award shall not exceed the per Eligible Employee share limitation for such Award as set forth in Section 3.2.

9.5 Financing. The Committee may in its discretion provide financing to a Participant in a principal amount sufficient to pay the purchase price of any Award and/or to pay the amount of taxes required by law to be withheld with respect to any Award. Any such loan shall be subject to all applicable legal requirements and restrictions pertinent thereto, including Regulation U promulgated by the Federal Reserve Board. The grant of an Award shall in no way obligate the Company or the Committee to provide any financing whatsoever in connection therewith.

SECTION 10. CHANGES IN CAPITAL STRUCTURE

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property or a different number or kind of shares or securities, or if cash, property or shares or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like, or if substantially all of the property and assets of the Company are sold, then, unless the terms of such transaction shall provide otherwise, the Committee may make appropriate and proportionate adjustments in (i) the number and type of shares or other securities or cash or other property that may be acquired pursuant to Awards theretofore granted under this Plan and the exercise or settlement price of such Awards, and (ii) the maximum number and type of shares or other securities that may be issued pursuant to such Awards thereafter granted under this Plan.

SECTION 11. CHANGE OF CONTROL

11.1 Effect of Change of Control. The Committee may through the terms of the Award or otherwise provide that any or all of the following shall occur, either immediately upon the Change of Control or a Change of Control Transaction, or upon termination of the Eligible Employee's employment within twenty-four (24) months following a Change of Control or a Change of Control Transaction: (a) in the case of an Option, the Participant's ability to exercise any portion of the Option not previously exercisable, and (b) in the case Restricted Stock or Stock Units, the lapse and expiration of any conditions to the grant, issuance, retention, vesting or transferability of, or any other restrictions applicable to, such Award. The Committee also may, through the terms of the Award or otherwise, provide for an absolute or conditional exercise, payment or lapse of conditions or restrictions on an Award which shall only be effective if, upon the announcement of a Change of Control Transaction, no provision is made in such Change of Control Transaction for the exercise, payment or lapse of conditions or restrictions on the Award, or other procedure whereby the Participant may realize the full benefit of the Award.

11.2 Definitions. Unless the Committee or the Board shall provide otherwise, "Change of Control" shall mean an occurrence of any of the following events (a) any Person (other than an Exempt Person), alone or together with its Affiliates and Associates, including any group of Persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act, becomes the Beneficial Owner, directly or indirectly, of thirty-three and one-third percent or more of (i) the then-outstanding shares of the Company's common stock or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then-outstanding voting securities; (b) a change, during any period of two consecutive years, of a majority of the Board of the Company as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the

Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the effective date of this Plan and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office); (c) consummation of any merger, consolidation, reorganization or other extraordinary transactions (or series of related transactions) involving the Company which results in the stockholders of the Company having power to vote in the ordinary election of directors immediately prior to such transaction (or series of related transactions) failing to beneficially own at least a majority of the securities of the Company having the power to vote in the ordinary election of directors which are outstanding after giving effect to such transaction (or series of related transactions); or (d) the stockholders of the Company approve a plan of complete liquidation of the Company or the sale of substantially all of the assets of the Company. "Change of Control Transaction" shall include any tender offer, offer, exchange offer, solicitation, merger, consolidation, reorganization or other transaction which is intended to or reasonably expected to result in a Change of Control. "Affiliate" and "Associate", when used with reference to any Person, have the meaning given to such terms in Rule 12b-2 under the Exchange Act. A Person's "Beneficial Ownership" of securities shall be determined in accordance with, and a Person shall be deemed the "Beneficial Owner" in accordance with, the rules and regulations, including Rule 13d-3, promulgated by the Securities and Exchange Commission in connection with Section 13(d) of the Exchange Act; provided that no Person engaged in business as an underwriter of securities shall be deemed for purposes of this Plan as the Beneficial Owner of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. "Exempt Person" means the Company, any Subsidiary, any employee benefit plan or employee stock plan of the Company or any Subsidiary (or any Person organized, appointed or established by the Company or any Subsidiary for or pursuant to the terms of any such plan). "Person" means an individual, a corporation, a partnership, an association, a trust, an unincorporated organization or any other entity. "Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient to elect a majority of the directors of such corporation (or other persons performing similar functions) are directly or indirectly Beneficially Owned by the Company.

SECTION 12. TAXES

12.1 Withholding Requirements. The Committee may make such provisions or impose such conditions as it may deem appropriate for the withholding or payment by the Employee or Participant, as appropriate, of any taxes which it determines are required in connection with any Awards granted under this Plan, and a Participant's rights in any Award are subject to satisfaction of such conditions.

12.2 Payment of Withholding Taxes. Notwithstanding the terms of Section 12.1 hereof, the Committee may provide in the agreement evidencing an Award or otherwise that all or any portion of the taxes required to be withheld by the Company or, if permitted by the Committee, desired to be paid by the Participant, in connection with the exercise of an Option or the exercise, vesting, settlement or transfer of any other Award shall be paid or, at the election of the Participant, may be paid by the Company withholding shares of the Company's capital stock otherwise issuable or subject to such Award, or by the Participant delivering previously owned

shares of the Company's capital stock, in each case having a fair market value equal to the amount required or elected to be withheld or paid. Any such elections are subject to such conditions or procedures as may be established by the Committee and may be subject to disapproval by the Committee.

SECTION 13. AMENDMENTS OR TERMINATION

The Board may amend, alter or discontinue the Plan or any agreement evidencing an Award made under the Plan, in its sole discretion, and the Committee may amend, alter or discontinue any agreement evidencing an Award under the Plan, and may, without limiting the generality of the foregoing:

(a) increase the maximum number of shares of Common Stock for which Awards may be granted under the Plan;

(b) reduce the exercise price of outstanding Options;

(c) after the date of a Change of Control, impair the rights of any Award holder, without such holder's consent, under any Award granted prior to the date of any Change of Control; or

(d) extend the term of the Plan;

provided, however, that the Board shall not materially reduce the class of persons eligible to be Participants unless it no longer intends for the Plan to qualify as "broadly-based" under the New York Stock Exchange Shareholder Approval Policy and takes appropriate actions to obtain shareholder approval of the Plan if required under such policy.

SECTION 14. COMPLIANCE WITH OTHER LAWS AND REGULATIONS.

The Plan, the grant and exercise of Awards thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Awards, shall be subject to all applicable federal, state and foreign laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such Shares under any federal, state or foreign law or any ruling or regulation of any government body which the Committee shall, in its sole discretion, determine to be necessary or advisable. This Plan is intended to constitute an unfunded arrangement for key employees.

No Option shall be exercisable unless a registration statement with respect to the Option is effective or the Company has determined that such registration is unnecessary. Unless the Awards and Shares covered by this Plan have been registered under the Securities Act of 1933, as amended, or the Company has determined that such registration is unnecessary, each person receiving an Award and/or Shares pursuant to any Award may be required by the Company to give a representation in writing that such person is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

SECTION 15. OPTION GRANTS BY SUBSIDIARIES

In the case of a grant of an Option to any Eligible Employee employed by a subsidiary or affiliate, such grant may, if the Committee so directs, be implemented by the Company issuing any subject Shares to the subsidiary or affiliate, for such lawful consideration as the Committee may determine, upon the condition or understanding that the subsidiary or affiliate will transfer the Shares to the optionholder in accordance with the terms of the Option specified by the Committee pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such Option may be issued by and in the name of the subsidiary or affiliate and shall be deemed granted on such date as the Committee shall determine.

SECTION 16. NO RIGHT TO COMPANY EMPLOYMENT

Nothing in this Plan or as a result of any Award granted pursuant to this Plan shall confer on any individual any right to continue in the employ of the Company or interfere in any way with the right of the Company to terminate an individual's employment at any time. The Award agreements may contain such provisions as the Committee may approve with reference to the effect of approved leaves of absence.

SECTION 17. EFFECTIVENESS AND EXPIRATION OF PLAN

The Plan shall be effective on the date the Board adopts the Plan. No Stock Option Award, Restricted Stock Award or Stock Unit shall be granted pursuant to the Plan more than ten (10) years after the effective date of the Plan.

SECTION 18. NON-EXCLUSIVITY OF THE PLAN

The adoption of the Plan by the Board shall not be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as it or they may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

SECTION 19. GOVERNING LAW

This Plan and any agreements hereunder shall be interpreted and construed in accordance with the laws of the State of Delaware and applicable federal law. The Committee may provide that any dispute as to any Award shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or in the agreement evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

AMENDED AND RESTATED PURCHASE AGREEMENT

THIS AMENDED AND RESTATED PURCHASE AGREEMENT ("AGREEMENT") is made as of February 23, 2000, between WESTERN DIGITAL CORPORATION, a Delaware corporation ("SELLER"), and MAYO FOUNDATION, a Minnesota nonprofit Corporation ("BUYER").

RECITALS:

FIRST: Seller is the owner of real property located in the City of Rochester, Olmsted County, Minnesota legally described on the attached Exhibit A ("LAND", and the respective Lots described therein "LOT 1", "LOT 2" and "LOT 3"), together with (1) all buildings and improvements constructed or located on the Land ("BUILDING") and (2) all easements and rights benefiting or appurtenant to the Land (collectively the "REAL PROPERTY"); and

SECOND: Seller is the owner of other items of property situated in or pertaining to the Real Property as described in Section 1 hereafter (collectively the "PERSONAL PROPERTY"); and

THIRD: Seller and Buyer entered into a Purchase Agreement (the "OLD PURCHASE AGREEMENT") dated as of January 18, 2000 with respect to a portion of the Real Property, but have now agreed to make certain changes to the terms of such Purchase Agreement.

In consideration of the mutual promises of the parties set forth in this Agreement, Seller and Buyer agree that the Old Purchase Agreement is hereby amended and restated to read as follows:

1. SALE OF PROPERTY. Seller agrees to sell to Buyer, and Buyer agrees to buy from Seller, the following property (collectively, "PROPERTY"):
 - 1.1 REAL PROPERTY. The Real Property, subject to the "Permitted Encumbrances" described on Exhibit B.
 - 1.2 PERSONAL PROPERTY. All of the personal property situated in or about the Real Property owned by Seller including any attached property or systems, such as the generator, or any components thereof which might be technically labeled as personal property except the items described in Exhibit ("PERSONAL PROPERTY").
 - 1.3 LEASES. Seller's interest as lessor in any lease affecting the Real Property ("LEASES").
 - 1.4 CONTRACTS, PERMITS, WARRANTIES, RECORDS, MISCELLANEOUS. Seller's interests in the following items all of which relate to the Property, to the extent transferable without the consent of any other party thereto (or to the extent that the necessary consents are obtained), and to the extent such items survive the Closing:
all

service and maintenance contracts, equipment leases, parking area leases, design, construction and other contracts, land surveys related to the Property ("CONTRACTS"); all permits and licenses related to the Property ("PERMITS"); all warranties and guaranties relating to the Property ("WARRANTIES"); and the right to inspect and receive copies, from time to time, both before and after Closing, of all records, including management, leasing, real estate taxes, assessments, insurance, rents, construction, maintenance, repairs, blue prints, surveys, soil test results, and capital improvements and services related to the Property ("RECORDS"). Seller agrees to use commercially reasonable efforts to obtain any consents required to allow transfer of these interests.

2. PURCHASE PRICE AND MANNER OF PAYMENT. The total purchase price ("PURCHASE PRICE") to be paid for the Property shall be Thirty Million Four Hundred Eight Thousand Nine Hundred Seventeen and 67/100 Dollars (\$30,408,917.67). The Purchase Price shall be payable as follows:

- 2.1 Seven Hundred Fifty Thousand Dollars (\$750,000.00) as earnest money ("EARNEST MONEY") which Earnest Money shall be held by Rochester Title and Escrow Company ("ESCROW AGENT
- 2.2 The balance of the Purchase Price in cash or by wire transfer of funds on the Closing Date.

3. CONTINGENCIES.

- 3.1 BUYER'S CONTINGENCIES. The obligations of Buyer under this Agreement are contingent upon each of the following:
 - 3.1.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of Seller contained in this Agreement must be true now and on the Closing Date as if made on the Closing Date.
 - 3.1.2 TITLE. Title shall have been found acceptable, or been made acceptable, in accordance with the requirements and terms of Section 6 below.
 - 3.1.3 ACCESS AND INSPECTION. Seller shall have allowed Buyer, and Buyer's agents, access to the Real Property without charge and at all reasonable times for the purpose of Buyer's investigation, surveying, and testing the same. Seller shall make available to Buyer and Buyer's Agents without charge all Records related to the Property. Buyer shall have the right to interview employees of Seller who may have knowledge of such matters. Buyer shall pay all costs and expenses of such investigation and testing, shall restore the Real Property, and shall hold Seller and the Real Property harmless from all costs and liabilities relating to the Buyer's activities pursuant to Section 3.3. Buyer shall have been satisfied with the results of all tests and investigations of Lot 3 performed by it or on its behalf as of the Contingency Date.

- 3.1.4 ESTOPPEL CERTIFICATES. On or before the Contingency Date, Buyer shall have received from all tenants under Leases or from Seller, estoppel certificates (the "ESTOPPELS"), which are reasonably acceptable to Buyer or a certificate from Seller certifying to the status of each Lease.
- 3.1.5 DOCUMENT REVIEW. Buyer shall have determined, on or before the Contingency Date, that it is satisfied with its review and analysis of the Leases, Contracts, Permits, Warranties and Records.
- 3.1.6 SELLER'S GOVERNMENTAL APPROVALS. Seller shall demonstrate to Buyer's satisfaction that Seller has obtained, at its sole cost and expense on or before the Contingency Date, all final governmental approvals or reimbursement of any governmental assistance that may be due as a result of this sale of the Property to Buyer, including, but not limited to, any approval or payment resulting from any tax increment financing agreements that affect the Property (collectively, the "Governmental Approvals").
- 3.2 SELLER'S CONTINGENCIES. The obligations of Seller under this Agreement are contingent upon each of the following:
- 3.2.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of Buyer contained in this Agreement must be true now and on the Closing Date as if made on the Closing Date.
- 3.2.2 SELLER'S GOVERNMENTAL APPROVALS. Seller shall have obtained the Governmental Approvals upon terms and conditions acceptable to Seller. Seller agrees to use commercially reasonable efforts to obtain the Governmental Approvals.

All the Buyer's contingencies are specifically for the benefit of the Buyer and all Seller's contingencies are specifically for the benefit of the Seller. Each party shall have the right to waive any contingency for its benefit. The "Contingency Date" shall be February 28, 2000. If any contingency has not been satisfied or waived on or before the Contingency Date, then this Agreement may be terminated by notice from the party benefited by the contingency to the other party, which notice shall be given on or before the Contingency Date. In the event a party fails to so terminate this Agreement on or before the Contingency Date, all contingencies shall be deemed to be satisfied or waived by such party. Upon termination, the Earnest Money, and any interest accrued thereon, shall be released to Buyer and upon return, neither party will have any further rights or obligations regarding this Agreement or the Property. Notwithstanding other provisions of this Section, the contingencies in Section 3.1.1 and 3.2.1 shall continue until the Closing Date.

4. CLOSING. The closing of the purchase and sale contemplated by this Agreement (the "CLOSING") shall occur February 28, 2000 (the "CLOSING DATE"). The Closing shall take place at 11:00 a.m. local time at the office of Dorsey & Whitney LLP in Rochester, Minnesota. Seller agrees to deliver possession of the Property to Buyer on the Closing Date.

4.1 SELLER'S CLOSING DOCUMENTS. On the Closing Date, Seller shall execute and deliver to Buyer the following (collectively, "SELLER'S CLOSING DOCUMENTS"), all in form and content reasonably satisfactory to Buyer:

4.1.1 DEED. A Warranty Deed in recordable form conveying good and marketable title to the Real Property to Buyer, free and clear of all encumbrances, except as permitted in Section 6 below.

4.1.2 SELLER'S AFFIDAVIT. A standard Seller's Affidavit acceptable in form to Escrow Agent and to Buyer.

4.1.3 BILL OF SALE. A Warranty Bill of Sale in the form attached to the Old Purchase Agreement as Attachment A conveying any Personal Property to Buyer, free and clear of all encumbrances.

4.1.4 ASSIGNMENT OF LEASES. An Assignment of Leases in the form attached to the Old Purchase Agreement as Attachment B assigning the Leases and any security deposits, prepaid rents or collections and guarantees regarding the Leases to Buyer, free and clear of all encumbrances.

4.1.5 ASSIGNMENT OF CONTRACTS, PERMITS, AND WARRANTIES. An Assignment of Contracts, Permits, Warranties and Miscellaneous Documents in the form attached to the Old Purchase Agreement as Attachment C conveying Seller's interest to Buyer together with the consent of all parties having a right to consent to such Assignment.

4.1.6 SECURITY DEPOSITS AND PREPAID RENTS. Any security deposits and prepaid rents under the Leases, including valid transfers of any noncash securities or documents held for such purposes, together with notices to tenants and third parties of such transfers.

4.1.7 ORIGINAL DOCUMENTS. Copies (original copies, if available) of the Leases, Contracts, Permits, and Warranties, plus, to the extent available, all plans and specifications for the Property in Seller's possession and to the extent requested copies of those Records requested by Buyer. Copies of all records required to be kept concerning the presence, location and quantity of asbestos containing materials and presumed asbestos containing materials in the Property.

- 4.1.8 FIRPTA AFFIDAVIT. A non-foreign affidavit in the form attached to the Old Purchase Agreement as Attachment D, properly executed, containing such information as is required by Internal Revenue Code Section 1445(b)(2) and its regulations.
 - 4.1.9 IRS FORM. A Designation Agreement designating the "reporting person" for purposes of completing Internal Revenue Form 1099 and, if applicable, Internal Revenue Form 8594.
 - 4.1.10 WELL CERTIFICATE. A Certificate signed by Seller warranting that there are no "Wells" on the Property within the meaning of Minn. Stat. Section 103I or if there are "Wells", a Well Certificate in the form required by law.
 - 4.1.11 STORAGE TANKS. If the Property contains or contained a storage tank, an affidavit with respect thereto, if required by Minn. Stat. Section 116.48.
 - 4.1.12 OTHER DOCUMENTS. All other documents reasonably determined by Buyer or Title to be necessary to transfer the Property to Buyer free and clear of all encumbrances other than the Permitted Encumbrances.
- 4.2 BUYER'S CLOSING DOCUMENTS. On the Closing Date, Buyer will execute and deliver to Seller the following (collectively, "BUYER'S CLOSING DOCUMENTS"):
- 4.2.1 PURCHASE PRICE. Funds representing the Purchase Price by wire transfer of U.S. Federal funds.
 - 4.2.2 IRS FORM. A Designation Agreement designating the "reporting person" for purposes of completing Internal Revenue Form 1099 and, if applicable, Internal Revenue Form 8594.
 - 4.2.3 ASSIGNMENT OF LEASES. An Assignment of Leases in the form attached to the Old Purchase Agreement as Attachment B by which Buyer accepts assignment of the Leases and assumes Seller's obligations thereunder.
 - 4.2.4 ASSIGNMENT OF CONTRACTS, PERMITS, AND WARRANTIES. An Assignment of Contracts, Permits, Warranties and Miscellaneous Documents in the form attached to the Old Purchase Agreement as Attachment C by which Buyer accepts assignment of the Contracts, Permits, Warranties and Miscellaneous Documents and assumes Seller's obligations under those items which have been identified and provided to Buyer pursuant to Section 8.3.

5. PRORATIONS. Seller and Buyer agree to the following pro-rations (made as of the Closing Date unless otherwise stated) and allocation of costs regarding this Agreement:

- 5.1 TITLE INSURANCE AND CLOSING FEE. Seller will pay all costs of the Title Evidence (as defined below) and one-half of any closing fee or charge imposed by Title. Buyer will pay the Title Policy premiums and one-half of any closing fee or charge imposed by Title.
- 5.2 DEED TAX. Seller shall pay all State Deed Tax payable in connection with this transaction.
- 5.3 REAL ESTATE TAXES AND SPECIAL ASSESSMENTS. . Real estate taxes payable in 2000 shall be prorated as of the Closing Date. Seller shall pay all Real Estate Taxes payable in 1999 and all prior years. Buyer will assume all Real Estate Taxes due and payable in 2001 and thereafter. Seller shall pay all special assessments levied, pending or certified as of the Closing, including all future special assessments proposed with respect to public improvements which have been constructed or are being constructed as of the Closing Date and any portions of such assessments which have been certified to the 2000 payable taxes.
- 5.4 RENTS. All rents and other charges under the Leases will be pro-rated as of the Closing Date. If at ----- the Closing Date a tenant under any of the Leases is delinquent, then if Buyer received from such tenant amounts in excess of the payments due Buyer, Buyer will remit such excess amounts to Seller. Buyer will have no obligation to collect any payments and will only be obligated to make payment to Seller after Buyer is fully paid for all amounts due it. Seller shall deliver to Buyer all records regarding operating expenses and cash in the amount of any prepaid deposits. At the request of either Seller or Buyer within thirty (30) days after the amount of operating expenses and reimbursement from tenants is determined and verified the parties shall re-prorate those items based upon the facts as finally determined.
- 5.5 OTHER COSTS. All other operating costs of the Property shall be allocated between Seller and Buyer as of 12:01 a.m. on the Closing Date.

6. TITLE EXAMINATION. Title Examination will be conducted as follows:

- 6.1 SELLER'S TITLE EVIDENCE. Seller has furnished the following (collectively, "TITLE EVIDENCE") to Buyer: (a) an Abstract of Title to the Real Property certified to a current date to include all appropriate judgment and bankruptcy searches; (b) a commitment ("TITLE COMMITMENT") for an ALTA Owner's Policy of Title Insurance insuring title to the Real Property, in the amount of the Purchase Price, issued by Chicago Title Insurance Company ("TITLE"); (c) legible copies of all documents affecting the Real Property which are referred to in the Title Commitment; (d) a copy of all existing land surveys in Seller's possession related to the Property; (e) the Estoppels, and (f) a UCC search showing no UCC filings

regarding any of the Property. Buyer may also obtain such title endorsements and other evidence of title as it may elect, such as a survey, reports of liens for unpaid sales or withholding taxes on file against Seller or its predecessors in title (or against any trade name or business name used by Seller or its predecessors in title) which are on file in the office of the Minnesota Secretary of State or any applicable County Recorder, all of which shall be part of the Title Evidence. Buyer understands and agrees that Seller may elect to keep certain retainages under its construction contract and Buyer consent thereto so long as Title will insure Buyer against mechanics liens.

6.2 OBJECTIONS TO TITLE. Buyer has accepted the Title Evidence.

7. OPERATION PRIOR TO CLOSING. During the period from the date of this Agreement to the Closing Date (the "EXECUTORY PERIOD"), Seller shall operate and maintain the Property in the ordinary course of business in accordance with prudent, reasonable business standards, including the maintenance of adequate liability insurance and insurance against loss by fire, windstorm and other hazards, casualties and contingencies, including vandalism and malicious mischief. Seller shall execute no contracts, leases or other agreements regarding the Property during the Executory Period that are not terminable on or before the Closing Date, without the prior written consent to Buyer, which consent may be withheld by Buyer at its sole discretion.

8. REPRESENTATIONS AND WARRANTIES BY SELLER. Seller represents and warrants to Buyer as follows:

- 8.1 LEASES. Seller has delivered to Buyer a correct and complete copy of each Lease and all its amendments. The Leases are in full force and neither Seller, nor any tenant, is in default under the Leases. There are no other leases or possessory rights of others regarding the Real Property except for the Permitted Encumbrances.
- 8.2 TITLE TO REAL PROPERTY. Seller owns the Real Property, free and clear of all encumbrances except the Permitted Encumbrances identified on Exhibit B attached hereto (the "Permitted Encumbrances").
- 8.3 CONTRACTS. Seller has delivered to Buyer a correct and complete copy of each Contract, Lease, Permit, Warranty and any amendments which will survive the closing of the transaction contemplated in this Agreement.
- 8.4 OPERATIONS. Seller has received no notice of actual or threatened cancellation or suspension of any utility services or certificate of occupancy for any portion of the Real Property. Seller has received no written notice of actual or threatened special assessments or reassessments of the Real Property. To Seller's best knowledge, during the period of Seller's ownership of the Property, Seller has used the Property in compliance with all governmental permits, statutes, and ordinances. All necessary permits have been obtained and are in full force and effect and no default exists thereunder.

- 8.5 ENVIRONMENTAL LAWS. To the best of Seller's knowledge, and except as identified in that certain Phase I Environmental Report ("Seller's Phase I") dated December 10, 1997, by Braun/Intertec, Project Number CMXX-97-0912, no toxic or hazardous substances or wastes, pollutants or contaminants (including, without limitation, asbestos, urea formaldehyde, the group of organic compounds known as polychlorinated biphenyls, petroleum products including gasoline, fuel oil, crude oil and various constituents of such products), and any hazardous substance as defined in any Environmental Law (as that term is defined below) (collectively, "Hazardous Substances") have been generated, treated, stored, transferred from, released or disposed of, or otherwise placed, deposited in or located on the Property in violation of any such Environmental Law, nor has any activity been undertaken on the Property that would cause or contribute to the Property becoming a treatment, storage or disposal facility within the meaning of any Environmental Law. The term "Environmental Law" shall mean any and all federal, state and local laws, statutes, codes, ordinances, regulations, rules, policies, consent decrees, judicial orders, administrative orders or other requirements relating to the environment or to human health or safety associated with the environment, all as amended or modified from time to time. To the best of Seller's knowledge, and except as identified in the Seller's Phase I, there has been no discharge, release or threatened release of Hazardous Substances or conditions in or on the Property that may support a claim or cause of action under any Environmental Law. The Property is not now, and to the best of the Seller's knowledge never has been, listed on any list of sites contaminated with Hazardous Substances, nor used as landfill, dump, disposal or storage site for Hazardous Substances. The phrase "to the best of Seller's knowledge" shall mean to the knowledge of Michael Zell and John Porcelli, Jr., the officers and employees of Seller primarily responsible for the acquisition and development of the Property
- 8.6 SELLER'S DEFAULTS. Seller is not in default concerning any of its obligations or liabilities which are binding upon the Property or which would have a material adverse effect on the Buyer's use, occupancy or enjoyment of the Property after Closing.
- 8.7 FIRPTA. Seller is not a "foreign person", "foreign partnership", "foreign trust" or "foreign estate", as those terms are defined in Section 1445 of the Internal Revenue Code.
- 8.8 PROCEEDINGS. There is no action, litigation, investigation, condemnation or proceeding of any kind pending or to the best knowledge of Seller threatened against any portion of the Property or against Seller with respect to the Property.

- 8.9 **CONDITION.** The buildings, structures and improvements included within the Property are entirely within the boundary line of the Property. All heating and air conditioning, wiring and plumbing shall be in proper working order as of the Closing Date. Attached to the Old Purchase Agreement as Exhibit E is a copy of the "punch list" of uncompleted work on the Building. Seller will diligently pursue completion of those items not so excluded through the Closing Date. To the extent there remain any such items that are not completed on the Closing Date, Seller's representatives will work with Buyer's representatives in good faith to keep Buyer's representatives updated on the status of any such items, so that Buyer's representatives are in a position to follow-up with the contractors and to enforce contracts/warranties to cause completion after closing without additional expense to Buyer. Seller will keep and not assign to Buyer any and all retainages under its construction contract and shall hold Buyer harmless against any mechanics liens which may arise out of work on the Property ordered by Seller.
- 8.10 **WELLS.** Except as disclosed on Exhibit D, the Seller certifies and warrants that the Seller does not know of any "wells" on the described Property within the meaning of Minn. Stat. Section 103I. This representation is intended to satisfy the requirements of that statute.
- 8.11 **STORAGE TANKS.** Except as disclosed on Exhibit D, to the best of Seller's knowledge, no above ground or underground tanks are located in or about the Property, or have been located under, in or about the Property and have subsequently been removed or filled. To the extent storage tanks exist on or under the Real Property, such storage tanks have been duly registered with all appropriate regulatory and governmental bodies, and otherwise are in compliance with applicable federal, state and local statutes, regulations, ordinances and other regulatory requirements.
- 8.12 **REPORTS.** Seller has delivered to Buyer copies of all environmental reports, surveys, and studies relating to the Property which are in the possession of or are reasonably available to Seller.
- 8.13 **INDIVIDUAL SEWAGE TREATMENT SYSTEMS.** Solely for purposes of satisfying the requirements on Minn. Stat. Section 115.55 Seller represents that except as disclosed on Exhibit D there is no "individual sewage treatment system" (within the meaning of that statute) on or serving the Property.
- 8.14 **AUTHORITY.** The individual or individuals executing this Agreement have authority to do so and to legally bind Seller to perform this Agreement. Upon request, seller shall promptly deliver to Buyer a Certificate of Secretary evidencing such authority.
- 8.15 **RIGHTS OF OTHERS IN PROPERTY.** Seller has not entered into any other contracts for the sale of the Property nor are there any rights of first refusal or options to purchase the Property or any other rights of others that will prevent the consummation of this Agreement.
- 8.16 **LEAD PAINT.** The RIDER TO PURCHASE AGREEMENT (LEAD PAINT) attached to the Old Purchase Agreement is hereby incorporated into this purchase agreement.

The maximum obligation of Seller to Buyer for breach of any representations or warranties shall be limited to the Purchase Price of the Property and Seller shall be liable for such breach only if (a) such breach is discovered within 24 months from the Closing Date and (b) any legal action on such breach shall have been commenced within 36 months from the Closing Date. Consummation of this Agreement by Buyer with knowledge of any such breach by Seller will not constitute a waiver or release by Buyer, its successors and assigns, of any claims due to such breach. Seller will indemnify Buyer, its successors and assigns, against and will hold Buyer, its successors and assigns, harmless from, any expenses or damages, including reasonable attorneys' fees, that Buyer, its successors and assigns, incurs because of the breach of any of the above representations and warranties, whether such breach is discovered before or after Closing, but only if (a) such breach is discovered within 24 months from the Closing Date and (b) any legal action on such breach shall have been commenced within 36 months from the Closing Date.

9. CASUALTY; CONDEMNATION. If any of the Real Property or other improvements are partially damaged by fire or other casualty or if there is a notice of condemnation with respect to any such portion of the Real Property, Seller shall give immediate written notice thereof to Buyer. Buyer may terminate this Agreement upon delivery of written notice to Seller within ten (10) days following the receipt of such notice, in which case, Seller and Buyer shall have no further obligation or liabilities under this Agreement and the Earnest Money (and any interest thereon) shall be immediately returned to Buyer. In the event Buyer does not elect to so terminate this Agreement, the Purchase Price shall not be reduced, but the Buyer shall be entitled to all insurance proceeds and/or condemnation proceeds that the Seller is entitled to receive as a result of such destruction or condemnation and Seller shall not be obligated to restore the Real Property.
10. BROKER'S COMMISSION. Seller and Buyer represent to each other that they have dealt with no brokers, finders or the like in connection with this transaction, and agree to indemnify and hold each other harmless from all claims, damages, costs or expenses of or for any other such fees or commissions resulting from their respective actions or agreements regarding the execution or performance of this Agreement.
11. ASSIGNMENT. Either party may assign its rights under this Agreement with the prior written consent of the other party, before or after the Closing. Any such assignment will not relieve such assigning party of its obligations under this Agreement.
12. SURVIVAL; FURTHER ASSURANCES. All of the terms of this Agreement and warranties and representations herein contained shall survive and be enforceable after the Closing. Seller and Buyer each agree that they will, upon the request of the other party, take all reasonable actions in a prompt manner to provide reasonably necessary documents or assurances required by the requesting party to implement this Agreement or for assisting Buyer in the collection and reducing to possession of any or all of the assets or property which is the subject of this Agreement, at the sole cost of the requesting party.

13. NOTICES. All notices and demands hereunder shall be in writing, and shall be deemed to have been properly given or served as of (a) the date of personal delivery with acknowledgment of receipt; (b) three (3) days after the same is deposited in the United States mail, prepaid, for delivery by registered or certified mail, return receipt requested; (c) the first business day after the date delivered to a reputable overnight courier service providing proof of delivery; or (d) on the day of facsimile transmission, if the sending machine prints out evidence of successful transmission and such transmission is made so that the recipient receives the facsimile prior to 5:00 p.m. local time of the recipient on a business day (and if not prior to 5:00 p.m. local time of the recipient on a business day, then service shall be deemed given on the next business day), with a copy mailed by regular mail no later than the next business day. The initial addresses of Landlord and Tenant are set forth below:

If to Buyer: Mayo Foundation
201 First Street SW
Rochester, MN 55905
Attn: John Herrell--Vice President
Fax: (507) 284-5760

With Copy to: Mayo Foundation
201 First Street SW
Rochester, MN 55905
Attn: Legal Department--Jonathan J. Oviatt
Fax: (507) 284-0929

If to Seller: Western Digital Corporation
8105 Irvine Center
Irvine, CA 92618
Attn: Matt Massengill, President
Fax: (949) 932-7837

With Copy to: Western Digital Corporation
8105 Irvine Center
Irvine, CA 92618
Attn: Raymond Bukaty, VP Corporate Law
Fax: (949) 932-5633

Such addresses may be changed at any time or from time to time or additional notice parties added, by notice as above provided.

14. MISCELLANEOUS. The Section and paragraph headings or captions appearing in this Agreement are for convenience only, are not a part of this Agreement, and are not to be considered in interpreting this Agreement. This written Agreement constitutes the complete agreement between the parties and supersedes any prior or contemporaneous oral or written agreements between the parties regarding the Property. There are no verbal agreements that change this Agreement, and no waiver of any of its terms will be effective unless in writing executed by the parties. This Agreement binds and benefits the parties and their successors and assigns. This Agreement has been made under the laws of the State of Minnesota, and such laws will control its interpretation. This Agreement may be signed in one or more counterparts, all of which, taken together, shall be deemed one original.

15. REMEDIES FOR NON-PERFORMANCE.

15.1 SELLER'S REMEDIES. If the Buyer defaults in performing any of the Buyer's Closing obligations under the terms of this Agreement on the Closing Date for any reason other than Seller's default, Seller's sole remedy shall be to terminate this Agreement and to receive the Earnest Money (and any interest thereon) as liquidated damages or to enforce specific performance of this Agreement as Seller's exclusive remedies

15.2 BUYER'S REMEDIES. If the Seller defaults in performing any of the Seller's Closing obligations under the terms of this Agreement on the Closing Date for any reason other than Buyer's default, Buyer shall be entitled to terminate this Agreement and to receive the Earnest Money (and any interest thereon) or to enforce specific performance of this Agreement as Buyer's exclusive remedies.

Seller and Buyer have executed this Agreement as of the date first written above.

SELLER: WESTERN DIGITAL CORPORATION
a Delaware corporation

Date of Signature By _____
February __, 2000 Its _____

By _____
Its _____

Tax I.D. Number: 95-2647125

BUYER: MAYO FOUNDATION,
a Minnesota nonprofit corporation

Date of Signature By _____
February __, 2000 Its President

And _____
Its Assistant Secretary
Tax I.D. Number: 41-1937751

EXHIBIT A
LEGAL DESCRIPTION OF REAL PROPERTY

LOTS 1, 2, AND 3, BLOCK 1; WESTERN DIGITAL TECHNOLOGY PARK, ACCORDING TO THE
RECORDED PLAT THEREOF, OLMSTED COUNTY, MINNESOTA.

EXHIBIT B
PERMITTED ENCUMBRANCES

- (1) Building and zoning laws, ordinances, and State and Federal regulations.
- (2) Reservation of any mineral or mineral rights to the State of Minnesota.
- (3) Real estate taxes as provided in Section 5.2(c).
- (4) Special assessments levied or pending or certified after the Closing Date.
- (5) Easements covenants, conditions, restrictions, reservation, and all other matters of record or which is disclosed by the ALTA survey of Lots 1 and 2 which was provided to Buyer or which would be disclosed by an ALTA survey of Lot 3.
- (6) Interests of Alton and Louise Shefelbine in Lot 1, Block 1, Western Digital Technology Park under Lease dated May 1, 1998 referenced in that certain Memorandum of Lease dated May 1, 1998 and recorded on May 6, 1998 as Document No. 778665 in the Olmsted County Minnesota Recorder's office.
- (7) Possible interest of tenant under any farming lease affecting Lot 3.

EXHIBIT C
EXCESS AND OBSOLETE EQUIPMENT
AT
WESTERN DIGITAL CORPORATION
4001 41ST STREET, NW
ROCHESTER, MN 55901

CLEANROOM-ASSOCIATED

Gowning racks
Gowning hooks
Ulpa Filters
Latex Gloves and wipes
Misc. Cleanroom garb and cleanroom supplies
Hangers

REMAINING GENERAL

Sensible Cooling Units (six)
Items of Equipment from Seller's other buildings
that were relocated to the Property

DATA CENTER (DC211)

2 Cisco 6500's with Modules
- - 2 Cisco MSM
- - 2 Supervisor Engines with Gigabyte Ports
- - 4 8 Port Gigabyte cards
- - 2 48 Port 10/100 cards
4 PC's w/ monitors
1 Sun Station w/monitors
1 Compaq Prolaint 6500 w/monitors
1 Compaq Prolaint 800 w/monitors
1 Cisco Probe
1 Phone
1 Laptop

TELECOMMUNICATIONS CLOSET TC 124

2 Cisco 5513 with 2 power supplies
2 Supervisor modules with Gigabyte ports
20 10/100 24 port fast Ethernet cards

MAIN CROSS-CONNECT CLOSET MC 125

2 Cisco 5513 with 2 power supplies
2 Supervisor modules with Gigabyte ports
21 10/100 24 port fast Ethernet cards
1 Cisco 4500 Router
4 T-1 CSU/DSU's
1 Lucent EPN
1 Lucent PPN

TELECOMMUNICATIONS CLOSET TC 136

3 Cisco 5513 with 2 power supplies
3 Supervisor modules with Gigabyte ports
32 10/100 24 port fast Ethernet cards

TELECOMMUNICATIONS CLOSET TC 137

3 Cisco 5513 with 2 power supplies
3 Supervisor modules with Gigabyte ports
32 10/100 24 port fast Ethernet cards

EXHIBIT D

WELL DISCLOSURE

To the best of Seller's knowledge there is one domestic well located on Lot 1, Block 1, Western Digital Technology which is in use. Attached hereto is a map showing the approximate location of the well.

This Disclosure is not a warranty of any kind by the Seller and is not a substitute for any inspections or warranties Buyer may wish to obtain.

This Disclosure is given pursuant to Minn. Stat. Section 103I.235.

STORAGE TANK DISCLOSURE

To the best of Seller's knowledge there is a 10,000 gallon diesel fuel underground storage tank located on Lot 2, Block 1, Western Digital Technology Park.

INDIVIDUAL WASTE TREATMENT SYSTEM DISCLOSURE

To the best of Seller's knowledge there is private sewer system consisting of a septic tank with drain field located on Lot 1, Block 1, Western Digital Technology. The sewer system which is currently in use was installed in 1993. Attached hereto is a map showing the approximate location of the septic tank.

This Disclosure is not a warranty of any kind by the Seller and is not a substitute for any inspections or warranties Buyer may wish to obtain.

This Disclosure is given pursuant to Minn. Stat. Section 115.55.

EXHIBIT E

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND BALANCE SHEET OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH QUARTERLY REPORT ON FORM 10-Q FOR THE NINE MONTH PERIOD ENDED MARCH 31, 2000.

1,000

9-MOS		
	JUN-30-2000	
	JUL-04-1999	
	MAR-31-2000	
		202,087
		0
		192,524
		15,069
		98,208
	533,818	
		435,226
		326,340
		690,195
525,043		
		222,562
	0	
		0
		1,393
		(107,410)
690,195		
		1,483,718
	1,483,718	
		1,517,235
		1,517,235
		330,695
		1,000
	(5,132)	
	(359,080)	
		0
(359,080)		
		0
		166,899
		0
		(192,181)
		(1.64)
		(1.64)