

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 October 2, 1999.

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 October 30, 1999, is 112,323,538.

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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	
	SEPT. 26, 1998	OCT. 2, 1999
Revenues, net .....	\$ 650,858	\$ 406,957
Costs and expenses:		
Cost of revenues .....	733,610	472,300
Research and development .....	51,921	50,143
Selling, general and administrative .....	57,332	43,822
Restructuring charges .....	--	32,300
Total costs and expenses .....	842,863	598,565
Operating loss .....	(192,005)	(191,608)
Net interest expense .....	(2,653)	(5,329)
Loss before extraordinary item .....	(194,658)	(196,937)
Extraordinary gain from redemption of debentures .	--	90,622
Net loss .....	\$(194,658)	\$(106,315)
	=====	=====
Basic and diluted loss per common share:		
Loss per share before extraordinary item ...	\$ (2.20)	\$ (2.05)
Extraordinary gain .....	--	.94
Loss per share .....	\$ (2.20)	\$ (1.11)
	=====	=====
Common shares used in computing per share amounts:		
Basic .....	88,545	95,918
	=====	=====
Diluted .....	88,545	95,918
	=====	=====

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)  
 (UNAUDITED)

	JULY 3, 1999	OCT. 2, 1999
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 226,147	\$ 185,054
Accounts receivable, less allowance for doubtful accounts of \$18,537 at July 3, 1999 and \$17,528 at October 2, 1999 .....	273,435	87,255
Inventories .....	144,093	207,741
Prepaid expenses .....	44,672	45,675
	-----	-----
Total current assets .....	688,347	525,725
Property and equipment at cost, net .....	237,939	186,981
Intangible and other assets, net .....	96,116	117,506
	-----	-----
Total assets .....	\$ 1,022,402	\$ 830,212
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
Current liabilities:		
Accounts payable .....	\$ 335,907	\$ 272,949
Accrued compensation .....	31,136	27,524
Accrued warranty .....	78,187	66,336
Accrued expenses .....	171,388	197,259
Current portion of long-term debt .....	10,000	10,000
	-----	-----
Total current liabilities .....	626,618	574,068
Long-term debt .....	534,144	371,365
Deferred income taxes .....	15,430	15,476
Commitments and contingent liabilities:		
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 123,209 at October 2, 1999 .....	1,019	1,232
Additional paid-in capital .....	335,197	436,725
Accumulated deficit .....	(294,841)	(401,156)
Accumulated other comprehensive income (loss) .....	(2,123)	21,923
Treasury stock-common stock at cost; 11,297 shares at July 3, 1999 and 10,885 shares at October 2, 1999 .....	(193,042)	(189,421)
	-----	-----
Total shareholders' deficiency .....	(153,790)	(130,697)
	-----	-----
Total liabilities and shareholders' deficiency .....	\$ 1,022,402	\$ 830,212
	=====	=====

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	
	SEPT. 26, 1998	OCT. 2, 1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss .....	\$(194,658)	\$(106,315)
Adjustments to reconcile net loss to net cash used for operating activities:		
Non-Cash Items:		
Depreciation and amortization .....	33,597	24,690
Interest accrued on convertible debentures .....	6,119	6,079
Non-cash portion of restructuring provision .....	--	14,029
Extraordinary gain on redemption of debentures .....	--	(90,622)
Changes in assets and liabilities:		
Accounts receivable .....	(9,282)	186,180
Inventories .....	19,013	(63,648)
Prepaid expenses .....	1,191	(4,891)
Intangible and other assets .....	1,652	(1,473)
Accounts payable .....	73,206	(62,958)
Accrued compensation .....	10,103	(3,612)
Accrued warranty .....	54,366	(11,851)
Accrued expenses .....	(18,396)	24,571
Deferred income taxes .....	(214)	46
Net cash used for operating activities .....	(23,303)	(89,775)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of land .....	--	26,019
Capital expenditures, net .....	(36,036)	(7,526)
Other investment .....	--	(1,100)
Net cash provided by (used for) investing activities .....	(36,036)	17,393
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Exercise of stock options .....	589	122
Proceeds from ESPP shares issued .....	3,073	1,502
Payment on term loan .....	--	(2,500)
Common stock issued .....	--	32,165
Net cash provided by financing activities .....	3,662	31,289
Net increase decrease in cash and cash equivalents .....	(55,677)	(41,093)
Cash and cash equivalents, beginning of period .....	459,830	226,147
Cash and cash equivalents, end of period .....	\$ 404,153	\$ 185,054
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for income taxes .....	\$ 1,272	\$ 294
Cash paid during the period for interest .....	1,012	991

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 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.

## 2. Supplemental Financial Statement Data (in thousands)

	JULY 3, 1999	OCT. 2, 1999
	-----	-----
Inventories		
Finished goods.....	\$101,828	\$179,135
Work in process .....	26,307	12,361
Raw materials and component parts .....	15,958	16,245
	-----	-----
	\$144,093	\$207,741
	=====	=====
Supplemental disclosure of non-cash investing activities		
Net mark to market increase on available for sale investments .....	\$ --	\$ 24,046
	=====	=====
Supplemental disclosure of non-cash financing activities		
Stock issued for redemption of debentures .....	\$ --	\$ 71,572
	=====	=====
Redemption of debentures for Company stock, net of capitalized issuance costs ....	\$ --	\$162,194
	=====	=====

	THREE-MONTH PERIOD ENDED	
	-----	-----
	SEPT. 26, 1998	OCT. 2, 1999
	-----	-----
Net Interest Income (Expense)		
Interest income .....	\$ 5,292	\$ 2,480
Interest expense .....	(7,945)	(7,809)
	-----	-----
	\$(2,653)	\$(5,329)
	=====	=====

## 3. Loss per Share

For the three-month periods ended September 26, 1998 and October 2, 1999, 13.9 and 17.9 million shares, respectively, relating to the possible exercise of outstanding stock options were not included in the computation of diluted loss per share. For the three-month periods ended September 26, 1998 and October 2, 1999, an additional 19.4 and 12.9 million shares, respectively, issuable upon conversion of the convertible debentures were excluded from the computation of diluted loss per share, respectively. The effects of these items were not included in the computation of diluted loss per share as their effect would have been anti-dilutive.

In September 1999, the Company's Board of Directors approved a "Broad-Based" Incentive Stock Plan (the "Broad-Based Plan") under which options to purchase shares of common stock may be granted to all regular non-direct labor employees of the Company. On October 20, 1999, the Board of Directors approved a grant of approximately 2.4 million shares under the Broad-Based Plan, at \$3.31 per share, the fair value of the Company's Common Stock on 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 existing shareholders rights plan will be 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.

#### 4. Common Stock Transactions

During the three-month period ended October 2, 1999, the Company issued approximately 362,000 and 51,000 shares of its common stock in connection with the Employee Stock Purchase Plan ("ESPP") and common stock option exercises, respectively, for an aggregate of \$1.6 million. During the corresponding period of the prior year, the Company issued approximately 325,000 and 85,000 shares of its common stock in connection with the ESPP and common stock option exercises, respectively, for an aggregate of \$3.7 million.

The Company has an equity drawdown facility ("Equity Facility") which allows the Company to issue up to \$150.0 million (in monthly increments of up to \$12.5 million) in common stock to institutional investors for cash at the market price of its stock less a discount ranging between 2.75% and 4.25%. During the period from July 16, 1999 through September 29, 1999, the Company issued 6.2 million shares of common stock under the Equity Facility for net proceeds of \$32.2 million.

During the period from July 27, 1999 through October 1, 1999, the Company issued 15.1 million shares of common stock to redeem its 5.25% zero coupon convertible subordinated debentures (the "Debentures") with a carrying value of \$166.4 million, and an aggregate principal amount at maturity of \$432.1 million, which were retired in non-cash transactions. These redemptions were private, individually negotiated transactions with certain institutional investors. The redemptions resulted in an extraordinary gain of \$90.6 million during the quarter due to the difference between the carrying value of the Debentures and the market value of the common stock issued by the Company at the time of the redemptions. As of the quarter ended October 2, 1999, the carrying value and aggregate principal amount at maturity of the remaining outstanding Debentures was \$333.9 million and \$865.1 million, respectively.

#### 5. Line of Credit

The Senior Bank Facility provides the Company with up to a \$125.0 million revolving credit line (depending on the borrowing base calculation) and a \$50.0 million term loan (\$47.5 million was outstanding as of October 2, 1999), both of which expire in November 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR or a base rate plus a margin determined by the borrowing base, with option periods of one to three months. The Senior Bank Facility requires the Company to maintain certain amounts of net equity, prohibits the payment of cash dividends on common stock and contains a number of other covenants. The Company is not in default under the Senior Bank Facility. However, as of the first quarter ended October 2, 1999, the borrowing base was significantly reduced as a result of lower accounts receivable balances at October 2, 1999, due to the product recall, and the Company has agreed that it will not borrow against the borrowing base until a review of the borrowing base is completed and agreement is reached as to the valuation of certain assets. The availability of this facility will depend upon, among other things, such valuation and compliance by the Company with the covenants of the facility. The total costs of the product recall announced on September 27, 1999 may result in the Company not being in compliance with certain financial covenants in the Senior Bank Facility in future periods. As of the date hereof, the \$47.5 million term loan was funded, but there were no borrowings under the revolving credit line. The term loan requires

quarterly payments of \$2.5 million with the remaining balance due in November 2001. During the current quarter the Company made a \$2.5 million payment on the term loan and \$47.5 million was outstanding as of the quarter ended October 2, 1999.

#### 6. Sale of Land

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 December 2000, and has an option to extend the lease for an additional six month period.

#### 7. Restructuring Programs

On July 8, 1999, a restructuring of operations and management responsibilities was executed. The structural change establishes a Worldwide Operations and Geographies structure and a Lines of Business/ Research and Development organization (LOB). Each of the Geographies will be responsible for their own operating results, field sales, customer and channel business management and channel marketing in their respective regions. The restructure resulted in a reduction of worldwide employee headcount of approximately 42 employees (compared to the original plan of 40), approximately 25 of which were direct and indirect labor and the rest were management, professional and administrative personnel. For the quarter ended October 2, 1999, the Company recorded a charge to operations of approximately \$2 million consisting primarily of severance and outplacement accruals. As of October 2, 1999, approximately \$1.7 million remained accrued for payments expected to occur substantially in the second and third quarters of 2000.

Following is a reconciliation of the original accrual, cash charges, and the remaining accrual (in millions):

Original restructuring accrual	\$ 2.0
Cash utilized	(.3)
	-----
Balance at October 2, 1999	\$ 1.7
	=====

There have been no significant changes to the original restructuring charges or accrual estimates.

On August 13, 1999, the Company initiated a restructuring plan which will move substantially all of its production of desktop hard drives to Malaysia, while expanding Singapore's role in design, development and manufacturing process engineering. The Company expects that the transfer of production of desktop hard drives to its Malaysia facility will result in a reduction of employee headcount in Singapore by the end of December 1999 of approximately 2,000 direct and 500 indirect workers. The Company also expects that the transfer of desktop hard drive production to its Malaysia facility will result in an employee headcount increase in Malaysia of approximately 2,000 workers by the end of December 1999. As of October 2, 1999, a headcount reduction in Singapore of 895 direct and 98 indirect workers and a headcount increase in Malaysia of 861 direct and 119 indirect workers had occurred. For the quarter ended October 2, 1999, the Company recorded a \$30.3 million charge to operations consisting of approximately \$14.1 million for the write-off of fixed assets to be disposed of, employee severance and outplacement costs of approximately \$11.0 million and lease cancellations and other costs of approximately \$5.2 million. During the first quarter ended October 2, 1999, severance payments of approximately \$1.1 million were made. The remaining \$9.9 million of severance and outplacement charges are to be paid by the end of the second quarter ending December 31, 1999. The \$5.2 million of lease cancellation and other costs is expected to be paid over 24 months beginning October 3, 1999, and the remaining \$14.1 million represents non-cash charges.

As of the first quarter ended October 2, 1999, the Company estimates that approximately 10% of the restructuring effort has been completed. Following is a reconciliation of the original accrual, cash charges, and the remaining accrual (in millions):

Original restructuring accrual	\$ 30.3
Non-cash charges	(14.1)
Cash utilized	(1.1)
	-----
Balance at October 2, 1999	\$ 15.1
	=====

There have been no significant changes to the original restructuring charges or accrual estimates. The value of the equipment to be disposed of was determined to have minimal salvage value.

As of October 2, 1999, the accrued expenses for the Company's fiscal 1999 restructuring efforts were substantially utilized.

#### 8. Product Recall

On September 27, 1999, the Company recalled approximately 400,000 of its 6.8GB per platter series of WD Caviar 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, and the Company has identified the remaining affected drives as either in the Company's or its customers' inventory. As of October 21, 1999, the Company had captured and begun rework on approximately 90% of the 1.2 million units manufactured with the faulty chip. Replacement of the chips will involve rework of the printed circuit board assembly. For the first quarter ended October 2, 1999, the Company recorded \$37.7 million of special charges to cost of sales for the estimated cost of recalling and repairing the affected drives. Of the \$37.7 million total charges, \$23.1 million was accrued for repair and retrieval cost with expected payment in the Company's second and third quarters ending December 31, 1999 and April 1, 2000, \$4.5 million was accrued for freight and other costs for expected payment in the second quarter ending December 31, 1999, and the remaining \$10.1 million represents valuation adjustments on related inventory which the Company expects will re-ship to customers at prices lower than cost due to the time delay.

#### 9. Investments in Marketable Securities

The Company owns approximately 10.8 million shares of Komag common stock, which at the time of acquisition 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 will lapse over a three and one-half year period. Approximately 45% of these shares are capable of being sold within 12 months. As 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"), they have been marked to market value using published closing prices of Komag stock as of October 2, 1999. Accordingly, an incremental unrealized loss of approximately \$0.2 million was recorded during the quarter ended October 2, 1999, and a total accumulated unrealized loss of \$2.3 million is included in accumulated other comprehensive income. The aggregate carrying value of the shares is \$32.7 million as of October 2, 1999. As of October 2, 1999, the quoted market value of the Company's Komag common stock holdings, without regard to discounts due to sales restrictions, was \$33.4 million. All of the Komag common stock is included in other assets.

The Company owns approximately 1.3 million shares of Vixel Corporation ("Vixel") common stock. As Vixel closed an initial public offering during the quarter ended October 2, 1999, the Company has identified the Vixel shares as "available for sale" under the provisions of SFAS 115. The shares have been marked to market value during the quarter ended October 2, 1999, and accordingly, an unrealized gain of \$24.2 million was recorded in accumulated other comprehensive income. The shares are restricted as to sale until March 28, 2000, pursuant to an agreement with Vixel's underwriters. All of the Vixel common stock is included in other assets.

## 10. Other Comprehensive Income

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. Other comprehensive income refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income. While SFAS 130 establishes new rules for the reporting and display of comprehensive income, SFAS 130 has no impact on the Company's net loss or total shareholders' deficit. The Company's other comprehensive income is comprised of unrealized gains and losses on marketable securities categorized as available for sale. The components of total comprehensive loss for the three-month period ended October 2, 1999 were as follows (in millions):

Net loss	\$ (106.3)
Other comprehensive income:	
Unrealized gain on investments, net	24.0
	-----
Total comprehensive loss	\$ (82.3) =====

## 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. 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 or liquidity. In addition, the costs of defending a retrial of the case may be material, regardless of the outcome.

On February 26, 1999, the Lemelson Foundation ("Lemelson") sued the Company and 87 other companies in the U.S. District Court for the District of Arizona. The complaint alleges infringement of numerous patents held by Mr. Jerome H. Lemelson relating to, among other matters, "machine vision," "computer image analysis," and "automatic identification." The Company has reached preliminary agreement with Lemelson concerning a fully paid-up license of the patents, and Lemelson has filed a voluntary dismissal without prejudice of the complaint against the Company. The amounts to be paid under the paid-up license had been accrued at October 2, 1999. Based upon the information presently known to management, 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 or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in 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 or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

On July 2, 1999, Magnetic Media Development, LLC ("Magnetic Media") brought suit against the Company in the United States District Court for the Northern District of California. The suit alleges infringement by the Company of four patents allegedly owned by Magnetic Media. The Company has reached an agreement with Magnetic Media concerning a fully paid up license covering the patents that are the subject of the complaint. The amounts to be paid under the paid-up license had been accrued at October 2, 1999. The Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity. 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 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 any royalties 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 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.

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

- the financial prospects of the Company
- the Company's financing plans
- litigation and other contingencies potentially affecting the Company's financial position or operating results
- trends affecting the Company's financial condition or operating results
- the Company's strategies for growth, operations, product development and commercialization
- 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 which 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 caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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.

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

### RECENT DEVELOPMENTS

On July 8, 1999, a restructuring of operations and management responsibilities was executed. The structural change establishes a Worldwide Operations and Geographies structure and a Lines of Business/Research and Development organization (LOB). Each of the Geographies will be responsible for their own operating results, field sales, customer and channel business management and channel marketing in their respective regions. The restructure resulted in a reduction of worldwide employee headcount of approximately 42 employees (compared to the original plan of 40), 25 of which were direct and indirect labor and the rest were management, professional and administrative personnel. For the quarter ended October 2, 1999, the Company recorded a charge to operations of approximately \$2 million consisting primarily of severance and outplacement accruals. As of October 2, 1999, approximately \$1.7 million remained accrued for payments expected to occur substantially in the second and third quarters of 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 December 2000, and has an option to extend the lease for an additional six month period.

On August 13, 1999, the Company initiated a restructuring plan which will move substantially all of its production of desktop hard drives to Malaysia, while expanding Singapore's role in design, development and manufacturing process engineering. The Company continues to evaluate its manufacturing capacity requirements and the efficiencies of its manufacturing operations in light of its reduced volumes. The Company expects that the transfer of production of desktop hard drives to its Malaysia facility will result in a reduction of employee headcount in Singapore by the end of December 1999 of approximately 2,000 direct and 500 indirect workers. The Company also expects that the transfer of desktop hard drive production to its Malaysia facility will result in an employee headcount increase in Malaysia of approximately 2,000 workers by the end of December 1999. As of October 2, 1999, a headcount reduction in Singapore of 895 direct and 98 indirect



workers and a headcount increase in Malaysia of 861 direct and 119 indirect workers had occurred. For the quarter ended October 2, 1999, the Company recorded a \$30.3 million charge to operations consisting of approximately \$14.1 million for the write-off of fixed assets to be disposed of, employee severance and outplacement costs of approximately \$11.0 million and lease cancellations and other costs of approximately \$5.2 million. During the quarter ended October 2, 1999, severance payments of approximately \$1.1 million were made. The remaining \$9.9 million of severance and outplacement charges are to be paid by the end of the second quarter ending December 31, 1999. The \$5.2 million of lease cancellation and other costs is expected to be paid over 24 months beginning October 3, 1999, and the remaining \$14.1 million represents non-cash charges.

On September 27, 1999, the Company recalled approximately 400,000 of its 6.8GB per platter series of WD Caviar 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, and the Company has identified the remaining affected drives as either in the Company's or its customers' inventory. As of October 21, 1999, the Company had captured and begun rework on approximately 90% of the 1.2 million units manufactured with the faulty chip. Replacement of the chips will involve rework of the printed circuit board assembly. For the first quarter ended October 2, 1999, the Company recorded \$37.7 million of special charges to cost of sales for the estimated cost of recalling and repairing the affected drives. Of the \$37.7 million total charges, \$23.1 million was accrued for repair and retrieval cost with expected payment in the Company's second and third quarters ending December 31, 1999 and April 1, 2000, \$4.5 million was accrued for freight and other costs for expected payment in the second quarter ending December 31, 1999, and the remaining \$10.1 million represents valuation adjustments on related inventory which the Company expects will re-ship to customers at prices lower than cost due to the time delay. Revenues of approximately \$100 million related to the products which were recalled were reversed in the first quarter ending October 2, 1999. In addition to the revenue reversal, the Caviar product line was shut down for approximately 2 weeks, eliminating approximately \$70 million of forecasted revenue during the first quarter. The Company has not yet determined how much of the potential loss might be recoverable from insurance sources and from the supplier of the faulty chip. As of the quarter ended October 2, 1999, the Company did not have the ability to reasonably estimate the impact of the product recall on the Company's sales and operations for the second quarter ending December 31, 1999 or the remaining quarters of fiscal year 2000.

#### RESULTS OF OPERATIONS

Consolidated revenues were \$407 million in the first quarter, a decrease of 37%, or \$243.9 million, from the first quarter of the prior year and a decrease of 43%, or \$302.3 million, from the immediately preceding quarter. Approximately \$170 million of this decrease was due to the impact of the product recall as discussed above. Lower revenues in the current quarter as compared to the corresponding quarter of the prior year resulted from a 27% decline in hard drive unit shipments combined with reductions in the average selling prices ("ASPs") of hard drive products due to an intensely competitive hard drive business environment. Lower revenues in the current quarter as compared to the immediately preceding quarter resulted from a 41% decline in hard drive unit shipments combined with further reductions in ASPs.

The consolidated negative gross profit in the current quarter totaled \$65.3 million, or 16% of revenue. This compares to a consolidated negative gross profit of \$82.8 million, or 13% of revenue, for the corresponding period of the prior year and a positive gross profit of \$20.9 million, or 3% of revenue, for the immediately preceding quarter. The gross loss in the current quarter includes a \$37.7 million special charge relating to the product recall. The gross loss in the corresponding period of the prior year includes a \$77 special charge to increase warranty accruals associated with the Company's last generations of thin-film desktop products. Excluding the aforementioned special charges, consolidated gross margin percentages in the current quarter were negative 7% as compared to negative 1% in the corresponding period of the prior year and a positive gross profit of 3% in the immediately preceding quarter. Excluding the aforementioned special charges, the decline in gross margin percentage points was primarily due to a decrease in hard drive unit shipments and lower ASPs for the Company's products.

The accrual for warranty decreased \$11.9 million or 15% from the immediately preceding quarter. The decrease in warranty accruals compared to the corresponding period of the prior year and immediately preceding quarter was primarily due to the continued utilization of the \$77 million special charge described

above for repair or replacement of the Company's last generations of thin-film desktop products returned during the quarter and general utilization.

Research and development ("R&D") expense for the current quarter was \$50.1 million, a decrease of \$1.8 million from the corresponding quarter of the prior year and an decrease of \$1.9 million from the immediately preceding quarter. R&D in the first quarter includes approximately \$3.7 million for Connex, Inc., a wholly owned subsidiary of the Company ("Connex"). The decrease in other R&D expenses is primarily due to the Company's cost cutting efforts.

The Company is continuing the Connex development efforts and expects to begin shipping the first new products developed by Connex in January 2000. Connex R&D spending in the first quarter was approximately \$3.7 million. The primary risks and uncertainties associated with timely completion of the projects lie in the Company's ability to attract and retain qualified software engineers in the current competitive environment. Should the projects not be completed on a timely basis, the Company's first-to-market advantages would be reduced (e.g. lower margins), or an alternative technology might be developed by a competitor which could severely impact the marketability of the Company's planned products. Should the projects prove to be unsuccessful, the impact on the fiscal year 2000 results of operations would primarily consist of the engineering and start up efforts incurred to complete the projects for which there would be no future value, plus the costs of any new efforts on replacement projects and/or costs to unwind the infrastructure if a decision were made not to pursue new efforts.

Selling, general and administrative ("SG&A") expense in the current quarter were \$43.8 million, a decrease of \$13.5 million from the corresponding quarter of the prior year and a decrease of \$0.8 million from the immediately preceding quarter. The first quarter SG&A expense includes approximately \$1.6 million Connex G&A infrastructure spending. The decrease in SG&A expense in the current quarter compared to the corresponding period of the prior year was primarily due to a \$7.5 million foreign currency-related special charge in the first quarter of 1999 and lower selling and marketing expenses in the current quarter due to a lower revenue base. The sequential decrease in SG&A expense was primarily due to reduced selling expenses in the current quarter due to a lower revenue base and cost-cutting efforts.

Net interest expense for the current quarter was \$5.3 million, compared to net interest expense of \$2.7 million in the corresponding quarter of the prior year and net interest expense of \$5.8 million in the immediately preceding quarter. The increase in net interest expense compared to the corresponding period of the prior year was attributable to a decrease in interest income earned on lower average cash and cash equivalent balances on hand during the current quarter. The decrease in net interest compared to the immediately preceding quarter was due to lower interest expense recorded on the Company's Debentures (the average carrying value of the Company's Debentures was lower due to the Debenture redemptions which occurred during the current quarter).

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

#### LIQUIDITY AND CAPITAL RESOURCES

At October 2, 1999, the Company had \$185.1 million of cash and cash equivalents as compared with \$226.1 million at July 3, 1999. Net cash used for operating activities was \$89.8 million during the current quarter as compared to net cash used for operating activities of \$23.3 million in the corresponding period of the prior year. Cash flows resulting from lower accounts receivable and higher accrued expenses were more than offset by higher inventory balances, lower payables, lower accrued warranty and the net loss (net of non-cash charges). Other uses of cash during the quarter include net capital expenditures of \$7.5 million primarily to upgrade the Company's desktop production capabilities and for normal replacement of existing assets. Partially offsetting the use of cash during the quarter were proceeds of \$32.2 million received for 6.2 million shares of the Company's stock which were issued under the Company's Equity Facility, and \$26 million received for the sale of land during the quarter.

The Company anticipates that capital expenditures for the remaining quarters of 2000 will total approximately \$70 million and will relate to retooling of the Company's hard drive assembly lines in order to accommodate new technologies and new product lines, normal replacement of existing assets and expansion of production capabilities in Malaysia. The Company's 2000 research and development and administrative infrastructure development programs include total planned spending of approximately \$13 million during the second and third quarters ending December 31, 1999 and April 1, 2000, to complete development and support of its first products by Connex, which are scheduled to begin shipping in January 2000. The Company also anticipates cash expenditures of approximately \$13.6 million to be paid in the remaining quarters of 2000 for severance and outplacement costs and lease cancellations and other costs of vacating leased properties related to the Company's 1999 and 2000 restructuring programs.

The Senior Bank Facility provides the Company with up to a \$125.0 million revolving credit line (depending on the borrowing base calculation) and a \$50.0 million term loan (\$47.5 million was outstanding as of October 2, 1999), both of which expire in November 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR or a base rate plus a margin determined by the borrowing base, with option periods of one to three months. The Senior Bank Facility requires the Company to maintain certain amounts of net equity, prohibits the payment of cash dividends on common stock and contains a number of other covenants. The Company is not in default under the Senior Bank Facility. However, as of the first quarter ended October 2, 1999, the borrowing base was significantly reduced as a result of lower accounts receivable balances at October 2, 1999, due to the product recall, and the Company has agreed that it will not borrow against the borrowing base until a review of the borrowing base is completed and agreement is reached as to the valuation of certain assets. The availability of this facility will depend upon, among other things, such valuation and compliance by the Company with the covenants of the facility. The total costs of the product recall announced on September 27, 1999 may result in the Company not being in compliance with certain financial covenants in the Senior Bank Facility in future periods. As of the date hereof, the \$47.5 million term loan was funded, but there were no borrowings under the revolving credit line. The term loan requires quarterly payments of \$2.5 million with the remaining balance due in November 2001. During the current quarter the Company made a \$2.5 million payment on the term loan and \$47.5 million was outstanding as of the quarter ended October 2, 1999.

The Company has an Equity Facility which allows the Company to issue up to \$150.0 million (in monthly increments of up to \$12.5 million) in common stock to institutional investors for cash at the market price of its stock less a discount ranging between 2.75% and 4.25%. During the period from July 16, 1999 through September 29, 1999, the Company issued 6.2 million shares of common stock under the Equity Facility for net proceeds of \$32.2 million.

During the period from July 27, 1999 through October 1, 1999, the Company issued 15.1 million shares of common stock in exchange for Debentures with a carrying value of \$166.4 million, and an aggregate principal amount at maturity of \$432.1 million, which were retired in non-cash transactions. These redemptions were private, individually negotiated transactions with certain institutional investors. The redemptions resulted in an extraordinary gain of \$90.6 million during the quarter due to the difference between the carrying value of the Debentures and the market value of the common stock issued by the Company at the time of the redemptions.

The Company expects to continue to incur operating losses in 2000. The Company also had negative shareholders' equity as of October 2, 1999. However, the Company had cash balances of \$185.1 million as of October 2, 1999. In addition, the Company has restructured or is in the process of restructuring its operations and has other sources of liquidity available. In light of these conditions, the Company has the following plans and other options:

- The Company plans to reduce expenses and capital expenditures substantially as compared to historical levels due to:
  - Recent restructurings;
  - Reduced general and administrative spending; and

- Reduced infrastructure resulting from the April 8, 1999 sale of its Santa Clara disk media operations.
- The Company has the following additional sources of liquidity available to it:
  - \$150.0 million Equity Facility (\$32.2 million of which had been utilized as of September 29, 1999);
  - Other unencumbered real estate which can be sold or financed; and
  - Other equity investments that may be disposed of during 2000.

Based on the above factors, the Company believes its current cash balances, its Equity Facility, and other liquidity vehicles currently available to it, will be sufficient to meet its working capital needs through fiscal 2000. There can be no assurance that the Senior Bank Facility 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 or 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 or 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 this Statement's requirements is not expected to have a material impact on the Company's consolidated financial position, results of operations or liquidity.

#### YEAR 2000

The Company has considered the impact of Year 2000 issues on its products, computer systems and applications and is working aggressively to achieve Year 2000 readiness. Overall Company readiness includes systems remediation, integration testing and supplier management. As of the end of the current quarter, systems remediation and integration testing and development of the Company's contingency plans have been completed. Supplier management is an ongoing process and will continue up to and including a period of time after January 1, 2000. Expenditures related to the Year 2000 project, which excludes normal replacement of existing capital assets, total approximately \$12 million through October 2, 1999, and are expected to amount to approximately \$13 million in total. For an additional discussion of Year 2000 issues, see "Risk factors relating to Western Digital particularly."

#### RISK FACTORS RELATED TO THE HARD DRIVE INDUSTRY IN WHICH WE OPERATE.

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

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

- consistently maintain and improve our time-to-market performance with our new products
- produce these products in sufficient volume within our rapid product cycle
- qualify these products with key customers on a timely basis by meeting our customer's performance and quality specifications, or
- 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 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 and enterprise markets. This issue is particularly acute in the enterprise portion of the market because the product life cycles for enterprise hard drives are longer than those for desktop drives. These risks are magnified because we expect technological changes, short product life cycles and intense competitive pressures to result in declining sales and gross margins on our current generation products.

We must complete our transition to giant magnetoresistive head technology.

We began the transition to giant magnetoresistive head technology in 1999, and all of our new products in 2000 will incorporate this technology. Unlike our transition to magnetoresistive technology in 1998, when we lagged behind the industry leaders, we believe that we are among the industry leaders in making this latest technology transition. However, if we are unable to complete this technology transition while remaining among the first in time-to-market and time-to-volume with these new products, our operating results could be harmed.

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 1999 and the second half of

1998, as a result of excess inventory in the desktop hard drive market, aggressive pricing and corresponding margin reductions materially adversely impacted our operating results. We experienced similar conditions in the high-end hard drive market during most of 1998 and 1999.

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

Over the past two years the consumer market for desktop computers has shifted significantly towards lower priced systems, especially those systems priced below \$1,000. If the market for those lower price systems continues to grow and 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 year as a result of the loss of retention value of our employee stock options (because of the decrease in price of our common stock) and aggressive recruiting by some of our competitors. If we are unable to retain our existing employees or to hire and integrate new employees, our operating results would likely be harmed.

#### RISK FACTORS RELATING TO WESTERN DIGITAL PARTICULARLY

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

A majority of our revenue comes from a few customers. For example, during 1999 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.

If we are to succeed in the enterprise hard drive portion of the market, we must increase our volume and market share.

To succeed in the enterprise hard drive portion of the market, we must develop and timely introduce new products, and we must increase the number of customers for our products. We are not currently selling enterprise hard drives at volumes which allow us to be successful in this market. A risk we face in expanding our product line is that there is currently a world-wide shortage of qualified hard drive engineers. As a result, competition for skilled hard drive development engineers is intense. We also may encounter development delays or quality issues, which may retard the introduction of new products or make the introduction of new products more expensive. If we experience any of these setbacks, we may miss crucial delivery time windows on these new enterprise products, which would likely harm our operating results.

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 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 2 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, either because of market oversupply or transition to new products or technologies. This occurred in 1998 when we accelerated our transition to magnetoresistive recording head technology.

In April 1999, we entered into a three year volume purchase agreement with Komag under which we will buy a substantial portion of our media components from Komag. We intend that this strategic relationship will reduce our media component costs; however, it increases 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 two manufacturing facilities, which subjects us to the risk of damage or loss of either facility.

Our volume manufacturing operations currently are based in two facilities, one in Singapore and one in Malaysia. We have recently announced that we will consolidate substantially all of our desktop drive manufacturing operations in our Malaysian plant, and the Company continues to evaluate its manufacturing capacity requirements and the efficiency of its manufacturing operations in light of its reduced volumes. A fire, flood, earthquake or other disaster or condition affecting either or both of our facilities would almost certainly result in a loss of substantial sales and revenue and harm our operating results.

Manufacturing our products abroad subjects us to numerous risks.

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

- obtaining requisite United States and foreign governmental permits and approvals
- currency exchange rate fluctuations or restrictions
- political instability and civil unrest
- transportation delays or higher freight rates
- labor problems

- trade restrictions or higher tariffs
- exchange, currency and tax controls and reallocations
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

We attempt 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.

Our plan to broaden our product offerings in storage solutions and audio-visual products takes us into new businesses.

We are preparing to enter the storage subsystem business through our subsidiary, Connex, Inc. This area of storage solutions is a new business venture for us. We will be 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 in this storage subsystems market will depend on Connex's ability to successfully develop, introduce and achieve market acceptance of new products, applications and product enhancements, and to successfully attract and retain skilled engineers, as the storage solutions business evolves. Additionally, our competitors in this market have established intellectual property portfolios. Our success will 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 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.

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 our 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, we cannot insure that our registered and unregistered intellectual property rights will not be challenged or exploited by others in the industry. 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 in the future be subject to significant fluctuations as a result of a number of other factors including:

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

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

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

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

The market price of our common stock is volatile.

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

- actual or anticipated fluctuations in our operating results
- announcements of technological innovations by us or our competitors which may decrease the volume and profitability of sales of our existing products and increase the risk of inventory obsolescence
- new products introduced by us or our competitors

- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures
- developments with respect to patents or proprietary rights
- conditions and trends in the hard drive industry
- 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. 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.

We may experience Year 2000 computer problems that harm our business.

The Year 2000 issue is the result of computer programs, microprocessors, and embedded date reliant systems using two digits rather than four to define the applicable year. This could result in a program, microprocessor or embedded system recognizing a date using "00" as the year 1900 rather than the year 2000. We consider a product to be Year 2000 compliant if:

- the product's performance and functionality are unaffected by processing of dates prior to, during and after the Year 2000, and
- all elements used with the product (for example, hardware, software and firmware) properly exchange accurate date data with it.

**Our Products.** We believe our hard drive products are Year 2000 compliant, although some older, non-hard drive products previously sold by us may not be Year 2000 compliant. Even if our products are Year 2000 compliant, we may be named as a defendant in litigation against makers of components of systems that are unable to properly manage data related to the Year 2000. Our agreements with customers typically contain provisions designed to limit our liability for such claims. These provisions may not provide protection from liability, however, because of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. Any such claims, with or without merit, could materially harm our business.

**Our Systems.** We have established a comprehensive program with a dedicated program management office to deal with Year 2000 readiness in our internal systems and with our customers and suppliers. We addressed our most critical internal systems first. We have categorized as "mission critical" or "priority" those systems the failure of which would have a high likelihood of causing an extended shutdown of all or a critical portion of a factory or personal injury, or have a significant and lengthy detrimental financial impact. As appropriate, we have tested customer and supplier electronic data interfaces with our internal systems. We have prioritized functions and systems on a worldwide basis, and all of our facilities are coordinated in working toward our company-wide timeline, which includes continuing quality assurance audits of the remediation and testing work which has been completed to date.

We have committed people and resources to resolve potential Year 2000 issues, both internally and with respect to our suppliers and customers, for both information technology assets and non-information technology assets. We identified Year 2000 dependencies in our systems, equipment and processes and we have implemented changes to such systems, updating or replacing such equipment, and modifying such processes to make all such mission-critical systems and substantially all other systems Year 2000 compliant. Each of our business sites has identified mission critical systems for which contingency plans have been developed in the event of any disruption caused by Year 2000 problems. Testing of our business applications has been completed, and test results have been reviewed. Follow-up remediation on non-mission critical systems resulting from the testing has been completed.

We are vulnerable to the failure of any of our key suppliers to remedy their Year 2000 issues. Such a failure could delay shipment of essential components and disrupt or even halt our manufacturing operations. While all our suppliers are being notified of our Year 2000 compliance requirements, we have established specific reviews with our critical suppliers, and they are requested to report their progress to us on a quarterly basis. We regularly monitor this progress and are actively involved with a few suppliers that are behind schedule.

We are also communicating with our large customers to determine the extent to which we are vulnerable to their failure to remedy their own Year 2000 issues. We also rely, both domestically and internationally, particularly in Singapore and Malaysia where we have our manufacturing facilities, upon governmental agencies, utility companies, telecommunication service companies, transportation service providers and other service providers outside of our control. We have less control over assessing and remediating Year 2000 issues of third parties. As a result, we cannot insure that these third parties will not suffer business disruption caused by a Year 2000 issue, which, in turn, could materially harm our business.

Contingency Planning. Because we believe that our core and mission-critical systems, equipment and processes are substantially Year 2000 compliant, we do not consider failure of these systems to be within a reasonable Year 2000 worst case scenario. We believe we are primarily at risk due to failures within external infrastructures such as utilities and transportation systems. However, if we have failed to identify all Year 2000 dependencies in our systems, equipment or processes or those of our suppliers, customers or other organizations on which we rely, it could result in delays in the manufacture or delivery of our products, which in turn would likely harm our business.

We are currently examining these risk areas to develop responses and action plans. These include a production halt at our Asian manufacturing facilities on December 31, 1999, and system access shutdown at all locations on December 31, 1999, and systems test and controlled startup prior to business resumption on January 1, 2000. We do not expect the production halt to affect our commitments to our customers. To date, detailed contingency plans have been developed and completed to support each business process which enables us to execute our primary operations, including administration and fiduciary obligations. The plans provide detailed work instructions and roles and responsibility matrices in order to transition rapidly to manual back-up systems in the event of electronic systems failures. These plans are being reviewed with customers and logistics providers to ensure compatibility with our external business partners. Managers and employees have participated in scenario planning drills to optimize readiness.

Other. Our Year 2000 program has been reviewed periodically by a third party. The results of the review have been reviewed by the Audit Committee of our Board of Directors. A final program review was completed during October 1999.

Expenditures related to our Year 2000 project, which excludes normal replacement of existing capital assets, were approximately \$12 million through October 2, 1999, and are expected to amount to approximately \$13 million in total. Based on work to date, we believe that the Year 2000 issue will not pose significant operational problems for us.

Many of our disclosures and announcements regarding our products and Year 2000 programs are intended to constitute "Year 2000 Readiness Disclosure" as defined in the Year 2000 Information and Readiness Disclosure Act. The Act provides added protection from liability for certain public and private statements concerning an entity's Year 2000 readiness and the Year 2000 readiness of its products and services. The Act

also potentially provides added protection from liability for certain types of Year 2000 disclosures made after January 1, 1996, and before the date of enactment of the Act.

### 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 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 of October 2, 1999, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	OCTOBER 2, 1999		
	CONTRACT	WEIGHTED	UNREALIZED
	AMOUNT	AVERAGE	GAIN*
		CONTRACT RATE	
	(U.S. DOLLAR EQUIVALENT AMOUNTS)		
Foreign currency forward contracts:			
Singapore Dollar.....	\$ 35.7	1.68	\$ .2
British Pound Sterling.....	3.2	1.61	.1
	-----		----
	\$ 38.9		\$ .3
	=====		====

\* The unrealized gains on these contracts are deferred and will be 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.

In the current quarter, the corresponding period of the prior year, and the immediately preceding quarter, total realized transaction and forward exchange contract currency gains and losses (excluding the \$7.5 million realized loss on the Malaysian Ringgits realized in the first quarter of 1999), were immaterial to the 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 impact the Company's consolidated financial statements.

## DISCLOSURE ABOUT OTHER MARKET RISKS

## Fixed Interest Rate Risk

At October 2, 1999, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately \$132 million, compared to the related carrying value of \$333.9 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 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 maintains a \$47.5 million term loan bearing interest at LIBOR or a base rate plus margin determined by the borrowing base with an approximate current interest rate of 7.91%, as part of its Senior Bank Facility. This is the only debt which does not have a fixed-rate of interest. A significant change in interest rates would not materially impact the Company's consolidated financial statements. The Senior Bank Facility expires in November 2001.

## 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 October 2, 1999, a \$2.3 million total accumulated unrealized loss has been recorded in accumulated other comprehensive income. 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. Due to market fluctuations, a significant decline in the stock's fair market value (of approximately 30% or more) could occur, and this decline could adversely impact the Company's consolidated financial statements. As of October 2, 1999, the quoted market value of the Company's Komag common stock holdings, without regard to discounts due to sales restrictions, was \$33.4 million.

The Company owns approximately 1.3 million shares of Vixel common stock. The shares are 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 October 2, 1999, a \$24.2 million total accumulated unrealized gain has been recorded in accumulated other comprehensive income. If the Company sells all or a portion of this common stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. Due to market fluctuations, a significant decline in the stock's fair market value as of October 2, 1999 (of approximately 40% or more) could occur, and this decline could adversely impact the Company's consolidated financial statements.

## 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 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. 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 or liquidity. In addition, the costs of defending a retrial of the case may be material, regardless of the outcome.

On February 26, 1999, the Lemelson Foundation ("Lemelson") sued the Company and 87 other companies in the U.S. District Court for the District of Arizona. The complaint alleges infringement of numerous patents held by Mr. Jerome H. Lemelson relating to, among other matters, "machine vision," "computer image analysis," and "automatic identification." The Company has reached preliminary agreement with Lemelson concerning a fully paid-up license of the patents, and Lemelson has filed a voluntary dismissal without prejudice of the complaint against the Company. The amounts to be paid under the paid-up license had been accrued at October 2, 1999. Based upon the information presently known to management, 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 or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in 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 or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

On July 2, 1999, Magnetic Media Development, LLC ("Magnetic Media") brought suit against the Company in the United States District Court for the Northern District of California. The suit alleges infringement by the Company of four patents allegedly owned by Magnetic Media. The Company has reached an agreement with Magnetic Media concerning a fully paid up license covering the patents that are the subject of the complaint. The amounts to be paid under the paid-up license had been accrued at October 2, 1999. The

Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity. 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 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 any royalties 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 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. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the period from July 27, 1999 to October 2, 1999, the Company engaged in transactions pursuant to which it exchanged an aggregate principal amount at maturity of \$432.1 million of the Company's Zero Coupon Convertible Subordinated Debentures due 2018, for an aggregate of 15,058,855 shares of the Company's common stock. These transactions were undertaken in reliance upon the exemption from the registration requirements of the Securities Act afforded by Section 3(a)(9) thereof, as exchanges of securities by the Company with its existing security holders. No commission or other remuneration was paid or given directly or indirectly for soliciting such exchanges. These exchanges were consummated in private, individually negotiated transactions with institutional investors.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) EXHIBITS:

- 3.2 By-laws of the Company, as amended October 15, 1999
- 10.34 Western Digital Corporation Broad-Based Stock Incentive Plan
- 10.36 Separation and Consulting Agreement dated October 1, 1999, by and between the Company and Charles A. Haggerty
- 10.37 Agreement dated July 6, 1999, by and between the Company and David W. Schafer
- 10.38.3 Third Amendment to Revolving Credit and Term Loan Agreement, dated as of July 30, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein\*
- 10.38.4 Fourth Amendment to Revolving Credit and Term Loan Agreement, dated as of August 27, 1999, among Western Digital Corporation, BankBoston N.A. and other lending institutions named therein\*
- 27. Financial Data Schedule

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 \* Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on October 1, 1999.

## (b) REPORTS ON FORM 8-K:

On July 14, 1999, the Company filed a current report on Form 8-K to file its press release dated June 14, 1999, announcing that its financial results for the fourth quarter ending July 3, 1999, were to be weaker than expected.

On August 19, 1999, the Company filed a current report on Form 8-K to file its press release dated July 21, 1999, announcing its fourth quarter and year-end results, and its press release dated August 13, 1999, announcing it was accelerating the consolidation of its high-volume desktop hard drive manufacturing in Malaysia and a reduction in its Singapore customer repair center and production-related work force.

On September 9, 1999, the Company filed a current report on Form 8-K to announce it had closed certain transactions pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended, retiring in the aggregate \$182.1 million principal amount at maturity of its Zero Coupon Convertible Subordinated Debentures due 2018 in exchange for shares of its common stock.

On September 27, 1999, the Company filed a current report on Form 8-K to file its press release dated September 21, 1999, announcing that its financial results for the first quarter ending October 2, 1999, would be below Wall Street analyst estimates.

On September 28, 1999, the Company filed a current report on Form 8-K to file its press release dated September 27, 1999, regarding Western Digital Corporation's announcement of a limited voluntary recall concerning one desktop hard drive series.

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

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Registrant

/s/Duston Williams

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Duston M. Williams  
Senior Vice President  
and Chief Financial Officer

Date: November 15, 1999

## EXHIBIT INDEX

Exhibit Number	Description
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WESTERN DIGITAL CORPORATION  
(A DELAWARE CORPORATION)

BY-LAWS

ARTICLE I

OFFICES

1.01 REGISTERED OFFICE. The registered office of Western Digital Corporation (hereinafter the "Corporation") in the State of Delaware shall be at 9 East Lookerman Street, Dover, and the name the registered agent in charge thereof shall be National Registered Agents, Inc.

1.02 PRINCIPAL OFFICE. The principal office for the transaction of the business of the Corporation shall be 8105 Irvine Center Drive, in the City of Irvine, County of Orange, State of California. The Board of Directors (hereinafter called the Board) is hereby granted full power and authority to change said principal office from one location to another.

1.03 OTHER OFFICES. The Corporation may also have such other offices at such other places, either within or without the State of Delaware, as the Board may from time to time determine or as the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.01 ANNUAL MEETINGS. Annual meetings of the stockholders of the Corporation for the purpose of electing directors and for the transaction of such proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution.

2.02 SPECIAL MEETINGS. Special meetings of the stockholders may be called at any time by the Board, the Chairman of the Board, the President, or by stockholders entitled to cast not less than ten percent of the votes at such meeting.

2.03 PLACE OF MEETINGS. All meetings of the stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

2.04 NOTICE OF MEETINGS. Except as otherwise required by law, notice of each meeting of the stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a typewritten or printed notice thereof to the stockholder personally, or by depositing such notice in the United States mail, in a postage-prepaid envelope, directed to the stockholder at the post office address furnished by the stockholder to the Secretary of the Corporation for such purpose or, if the stockholder shall not have furnished to the Secretary the stockholder's address for such purpose, then at the stockholder's post office address last known to the Secretary, or by transmitting a notice thereof to the stockholder at such address by telecopy, telegraph, cable, wireless or such other means as are reasonably designed to result in actual notice. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholder shall be required. Every notice of a meeting of the stockholders shall state the place, date and hour of the meeting, and in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder to whom notice may be omitted pursuant to applicable Delaware law or who shall have waived such notice and such notice shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy except a stockholder who shall attend such meeting for the express purpose of objecting at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholder need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

2.05 QUORUM. Except as otherwise required by law, the holders of record of a majority in voting interest of the shares of stock of the Corporation entitled to be voted at any meeting of stockholders of the Corporation, present in person or by proxy, shall constitute a quorum at any meeting or any adjournment thereof, a majority in voting interest of the stockholder present in person or by proxy and entitled to vote thereat or, in the absence thereof of all stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

2.06 VOTING.

(a) Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the Corporation having voting rights on the matter in question and which shall have been held by and registered in the name of the stockholder on the books of the Corporation:

(i) on the date fixed pursuant to Section 2.09 of these By-laws as the record for the determination of stockholder entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (a) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (b) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

(b) Shares of its own stock belonging to the Corporation or- to another corporation, if a majority of the shares entitled to vote in the election of directors in such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation the pledgor shall have expressly empowered the pledgee to vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants in common, tenants by entirety or otherwise, or with respect to which two or more persons have the same fiduciary relationship, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

(c) Any such voting rights may be exercised by the stockholder entitled thereto in person or by the stockholder's proxy, provided, however, that no proxy shall be voted or acted upon after eleven months from its date unless said proxy shall provide for a longer period. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless the stockholder shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At any meeting of the stockholders all matters, except as otherwise provided in the Certificate of Incorporation, in these By-laws or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat and thereon, a quorum being present. The vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his or her proxy, if there be such proxy, and it shall state the number of shares voted.

2.07 LIST OF STOCKHOLDERS. The Secretary of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

2.08 JUDGES. If at any meeting of the stockholder a vote by written ballot shall be taken on any questions, the chairman of such meeting may appoint a judge or judges to act with respect to such vote. Each judge so appointed shall first subscribe an oath faithfully to execute the duties of a judge at such meeting with strict impartiality and according to the best of his ability. Such judges shall decide upon the qualification of the voters and

shall report the number of shares represented at the meeting and entitled to vote on such question, shall conduct and accept the votes, and, when the voting is completed, shall ascertain and report the number of shares voted respectively for and against the question. Reports of judges shall be in writing and subscribed and delivered by them to the Secretary of the Corporation. The judges need not be stockholders of the Corporation, and any officer of the Corporation may be a judge on any question other than a vote for or against a proposal in which he shall have a material interest.

2.09 FIXING DATE FOR DETERMINATION OF STOCKHOLDER OF RECORD. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

#### 2.10 STOCKHOLDER PROPOSALS AND NOMINATIONS.

(a) At an annual meeting of stockholders, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the annual meeting by or at the direction of a majority of the directors or by any stockholder of the Corporation who complies with the notice procedures set forth in this Section 2.10(a). For a proposal to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the corporation not less than 60 days nor more than 120 days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal, (iii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice and by any other stockholders known by such stockholder to be supporting such proposal on the date of such stockholder notice, and (iv) any financial interest of the stockholder in such proposal. The presiding officer of the annual meeting shall determine and declare at the annual meeting whether the stockholder proposal was made in accordance with the terms of this Section 2.10(a). If the presiding officer determines that a stockholder proposal was not made in accordance with the terms of this Section 2.10(a), he or she shall so declare at the annual meeting and any such proposal shall not be acted upon at the annual meeting. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees or the Board of Directors, but, in connection with such reports, no new business shall be acted upon at such annual meeting unless stated, filed and received as herein provided.

(b) Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 2.10(b). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the

Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 60 days nor more than 120 days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. A stockholder's notice to the Secretary shall set forth (i) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (A) the name, age, business address and residence address of the person, (B) the principal occupation or employment of the person, (C) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person and (D) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to applicable rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended; and (ii) as to the stockholder giving the notice (A) the name and address, as they appear on the Corporation's books, of the stockholder and (B) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder on the date of such stockholder notice. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation. The presiding officer of the annual meeting shall determine and declare at the annual meeting whether the nomination was made in accordance with the terms of this Section 2.10(b). If the presiding officer determines that a nomination was not made in accordance with the terms of this Section 2.10(b), he or she shall so declare at the annual meeting and any such defective nomination shall be disregarded.

### ARTICLE III

#### BOARD OF DIRECTORS

3.01 GENERAL POWERS. The property, business and affairs of the Corporation shall be managed by the Board.

3.02 NUMBER AND TERM OF OFFICE. The number of directors shall be not less than five nor more than twelve until this Section 3.02 is amended by a resolution duly adopted by the Board or by the shareholders, in either case, in accordance with the provisions of the Certificate of Incorporation of the Corporation. The specific number of directors at any time shall be that number between five and twelve as may be determined from time to time by the Board by resolution. Directors need not be stockholders. Each of the directors of the Corporation shall hold office until his successor shall have been duly elected and shall qualify or until he shall resign or shall have been removed in the manner hereinafter provided.

3.03 ELECTION OF DIRECTORS. The directors shall be elected annually by the stockholders of the Corporation and the persons receiving the greatest number of votes, up to the number of directors to be elected, shall be the directors.

3.04 RESIGNATIONS. Any director of the Corporation may resign at any time by giving written notice to the Board or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon its receipt; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

3.05 VACANCIES. Except as otherwise provided in the Certificate of Incorporation, any vacancy in the Board, whether because of death, resignation, disqualification, an increase in the number of directors, or any other cause, may be filled by vote of the majority of the remaining directors, although less than a quorum. Each director so chosen to fill a vacancy shall hold office until his successor shall have been elected and shall qualify or until he shall resign or shall have been removed in the manner hereinafter provided.

3.06 PLACE OF MEETING, ETC. The Board may hold any of its meetings at such place or places within or without the State of Delaware as the Board may from time to time by resolution designate or as shall be designated by the person or persons calling the meeting or in the notice or a waiver of notice of any such meeting. Directors

may participate in any regular or special meeting of the Board by means of conference telephone or similar communications equipment pursuant to which all persons participating in the meeting of the Board can hear each other, and such participation shall constitute presence in person at such meeting.

3.07 FIRST MEETING. The Board shall meet as soon as practicable after each annual election of directors and notice of such first meeting shall not be required.

3.08 REGULAR MEETINGS. Regular meetings of the Board shall be held at such times as the Board shall from time to time by resolutions determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

3.09 SPECIAL MEETINGS. Special meetings of the Board for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any Vice President, the Secretary or any two directors. Special meetings of the Board shall not be held upon not less than four days' written notice or not less than 48 hours' given personally or by telephone, telegraph, teletype, telex or other similar means of communication. Any such notice shall be addressed or delivered to each director at such director's address as it is shown upon the records of the Corporation or as may have been given to the Corporation by the director for the purpose in which the meetings of the directors are regularly held. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the time it is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

3.10 QUORUM AND MANNER OF ACTING. Except as otherwise provided in these By-laws, the Certificate of Incorporation, or by law, the presence of a majority of the authorized number of directors shall be required to constitute a quorum for the transaction of business at any meeting of the Board, and all matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the directors present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, provided any action taken is approved by at least a majority of the required quorum for such meeting. In the absence of a quorum, a majority of directors present at any meetings may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a Board, and the individual directors shall have no power as such.

3.11 ACTION BY CONSENT. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

3.12 REMOVAL OF DIRECTORS. Subject to the provisions of the Certificate of Incorporation, any director may be removed at any time, either with or without cause, by the affirmative vote of the stockholders having a majority of the voting power of the Corporation given at a special meeting of the stockholders called for the purpose.

3.13 COMPENSATION. The directors shall receive only such compensation for their services as directors as may be allowed by resolution of the Board. The Board may also provide that the Corporation shall reimburse each such director for any expense incurred by him on account of his attendance at any meetings of the Board or Committees of the Board. Neither the payment of such compensation nor the reimbursement of such expenses shall be construed to preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving compensation therefor.

3.14 COMMITTEES. The Board may appoint one or more committees, each consisting of one or more directors, and delegate to such committees any of the authority of the Board permitted by law except with respect to:

- (a) The approval of any action for which the General Corporation Law also requires shareholders approval or approval of the outstanding shares;
- (b) The filing of vacancies on the Board or on any committee;
- (c) The fixing of compensation of the directors for serving on the Board or on any committee;
- (d) The amendment or repeal of By-laws or the adoption of new By-laws;
- (e) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;
- (f) A distribution to the shareholders of the corporation except at a rate or in a periodic amount or within a price range determined by the Board;
- (g) The appointment of other committees of the Board or the members thereof.

Any such committee must be appointed by resolution adopted by a majority of the authorized number of directors and may be designated an Executive Committee or by such other name as the Board shall specify. The Board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. The Board shall have the power to prescribe the manner in which proceedings of any such committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless the Board or such committee shall provide, the regular and special meetings of any such committee shall be governed by the provisions of this Article applicable to meetings and actions of the Board. Minutes shall be kept of each meeting of such committee.

3.15 EXECUTIVE COMMITTEE. The passage of any resolution of the committee designated by the Board as the Executive Committee shall, in addition to any other limitations prescribed by the Board in accordance with the provisions of Section 3.14, require the affirmative vote of a majority of directors present and voting on such resolution who are not employees of the Corporation.

3.16 RIGHTS OF INSPECTION. Every director shall have the right to any reasonable time to inspect and copy all books, records, and documents of every kind and to inspect the physical properties of the corporation and also of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney and includes the right to copy and obtain extracts.

#### ARTICLE IV

##### OFFICERS

4.01 CORPORATE OFFICERS. The officers of the Corporation shall be a President, a Secretary, and a Chief Financial Officer. The Corporation may also have, at the discretion of the Board, a Chairman of the Board (who shall not be considered an officer of the Corporation), one or more Vice Presidents, a Treasurer, one or more Assistant Treasurers, one or more Assistant Secretaries, and such other officers as may be elected or appointed in accordance with the provisions of Section 4.03 or Section 4.06 of this Article.

4.02 ELECTION, TERM OF OFFICE AND QUALIFICATIONS. The officers of the Corporation, except such officers as may be appointed in accordance with Sections 4.01a or 4.05, shall be appointed annually by the Board at the first meeting thereof held after the election of the Board. Each officer shall hold office until such officers shall resign or shall be removed or otherwise disqualified to serve, or the officer's successor shall be appointed and qualified.

4.03 SUBORDINATE OFFICERS. The Board may elect, and may empower the President to appoint, such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these By-laws or as the Board may from time to time determine.

4.04 REMOVAL. Any officer of the Corporation may be removed, with or without cause, at any time at any regular or special meeting of the Board by a majority of the directors of the Board at the time in office or, except in the case of an officer appointed by the Board, by any officer of the Corporation or committee of the Board upon whom or which such power of removal may be conferred by the Board.

4.05 RESIGNATIONS. Any officer may resign at any time by giving written notice of such officer's resignation to the Board, the President, or Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, upon receipt thereof by the Board, President, or Secretary. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.06 VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, or other event, may be filled for the unexpired portion of the term thereof in the manner prescribed in the By-laws for regular appointments to such office.

4.07 PRESIDENT. The President of the Corporation shall be the Chief Executive Officer and general manager of the Corporation and shall have, subject to the control of the Board, general supervision, direction and control of the business and officers of the Corporation. The President shall preside at all meetings of the stockholders and, in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board. The President shall have the general powers and duties of management usually vested in the office of president and general manager of a corporation and such other powers and duties as may be prescribed by the Board.

4.08 VICE PRESIDENTS. In the absence or disability of the President, the Vice Presidents in order of their rank as fixed by the Board or, if not ranked, the Vice President designated by the Board, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board.

4.09 SECRETARY. The Secretary shall keep or cause to be kept, at the principal executive office and such other place as the Board may order, a book of minutes of all meetings of the stockholders, the Board, and its committees, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at Board and committee meetings, the number of shares present or represented at stockholder's meetings, and the proceedings thereof. The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer or registrar, if one be appointed, a share register, or a duplicate share register, showing the names of stockholders and their addresses, the number and classes of share of stock held by each, the number and date of certificates issued for the same, and the number and date of cancellation if every certificate surrendered for cancellation. The Secretary shall give, or cause to be given, notice of all the meetings of the stockholders and of the Board of any committees thereof required by these By-laws or by law to be given, shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

4.10 CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct amounts of the properties and business transactions of the Corporation, and shall send or cause to be sent to the stockholders of the Corporation such financial statements and reports as are by law or these By-laws required to be sent to them. The books of account shall at all times be open to inspection by any directors. The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board, shall render to the President and directors, whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

4.11 COMPENSATION. The compensation of the officers of the Corporation shall be fixed from time to time by the Board. No officer shall be prevented from receiving such compensation by reason of the fact that the officer is also a director of the Corporation. Nothing contained herein shall preclude any officer from serving the Corporation, or any subsidiary corporation, in any other capacity and receiving compensation therefor.

## ARTICLE V

## CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

5.01 EXECUTION OF CONTRACTS. The Board, except as in these By-laws otherwise provided, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless so authorized by the Board or by these By-laws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

5.02 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board. Each authorized person shall give such bond, if any, as the Board may require.

5.03 DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies and other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the President and Vice President or the Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

5.04 GENERAL AND SPECIAL BANK ACCOUNTS. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these By-laws, as it may deem expedient.

## ARTICLE VI

## SHARES AND THEIR TRANSFER

## 6.01 CERTIFICATES FOR STOCK.

(a) The Shares of the Corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate, in such form as the Board shall prescribe, signed by, or in the name of the Corporation by the Chairman or Vice Chairman of the Board, or the President or Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation representing the number of shares registered in certificate form. Any of or all of the signatures on the certificates may be by facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue.

(b) A record shall be kept of the respective names of the persons, firms or corporations owning the stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in Section 6.04

6.02 TRANSFERS OF STOCK. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, or with a transfer clerk or a transfer agent appointed as provided in Section 6.03, and upon surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be so expressed in the entry of transfer if, when the certificate or certificates shall be presented to the Corporation for transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

6.03 REGULATIONS. This Board may make such rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

6.04 LOST, STOLEN, DESTROYED, AND MUTILATED CERTIFICATES. In any case of loss, theft, destruction, or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate may be issued without requiring any bonds when, in the judgment of the Board, it is proper to do so.

## ARTICLE VII

### INDEMNIFICATION

7.01 SCOPE OF INDEMNIFICATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding to the fullest extent permitted by Delaware law and the Certificate of Incorporation.

7.02 ADVANCE OF EXPENSES. Costs and expenses (including attorneys' fees) incurred by or on behalf of a director, officer, employer or agent in defending or investigating any action, suit proceeding or investigation shall be paid by the Corporation in advance of the final disposition of such matter, if such director, officer, employee or agent shall undertake in writing to repay any such advances in the event that it is ultimately determined that he is not entitled to indemnification. Notwithstanding the foregoing, no advance shall be made by the Corporation if a determination is reasonably and promptly made by the Board by a majority vote of a quorum of disinterested directors, or (if such a quorum is not obtained or, even if obtainable, a quorum of disinterested directors so directs) by independent legal counsel, that, based upon the facts known to the Board or counsel at the time such determination is made, (a) the director, officer, employee or agent acted in bad faith or deliberately breached his duty to the Corporation or its stockholders, and (b) as a result of such actions by the director, officer, employee or agent, it is more likely than not that it will ultimately be determined that such director, officer, employee or agent is not entitled to indemnification.

7.03 OTHER RIGHTS AND REMEDIES. The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of the Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-laws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

7.04 CONTINUATION OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of their heirs, executors and administrators of such a person.

7.05 INSURANCE. Upon resolution passed by the Board, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of the Article.

#### ARTICLE VIII

#### MISCELLANEOUS

8.01 SEAL. The Board shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and words and figures showing that the Corporation was incorporated in the State of Delaware and the year of incorporation.

8.02 WAIVER OF NOTICES. Whenever notice is required to be given by these By-laws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice. Attendance of a person at a meeting (whether in person or by proxy in the case of a meeting of stockholders) shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

8.03 AMENDMENTS. These By-laws, or any of them, may be altered, amended or repealed, and new By-laws may be made, (i) by the Board, by vote of a majority of the number of directors then in office as directors, acting at any meeting of the Board, or (ii) by the stockholders, provided that notice of such proposed amendment, modification, repeal or adoption is given in the notice of special meeting. Any By-laws made or altered by the stockholders may be altered or repealed by either the Board or the stockholders.

8.04 REPRESENTATION OF OTHER CORPORATIONS. The President, any Vice President, or Secretary of this Corporation are authorized to vote, represent and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this Corporation. The authority herein granted to said officers to vote or represent on behalf of this Corporation any and all shares held by this Corporation in any other corporation or corporations may be exercised either by such officers in person or by any person authorized so to do by proxy or power of attorney duly executed by said officers.

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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.

## [WESTERN DIGITAL CORPORATION LETTERHEAD]

October 1, 1999

Mr. Charles A. Haggerty  
27 Le Conte  
Laguna Niguel, 92677

Dear Chuck:

This letter, when signed by you, constitutes the agreement between you and Western Digital, Inc. (the "Company") relative to your resignation from the Company.

You are employed by the Company as its President, Chief Executive Officer and Chairman of the Board and are a member of the Board of Directors of the Company and an officer and/or director of certain of the Company's subsidiaries. The Company and you wish to document (i) the severance and other benefits the Company has agreed to pay you in connection with your resignation as President, Chief Executive Office and Chairman of the Board and as a member of the Company's Board of Directors and as a director and/or officer of certain of its subsidiaries and other related companies upon which you serve as a director and/or officer, and (ii) the consulting arrangement and restrictions that will be in effect following such termination.

in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between us as follows:

1. RESIGNATION DATE. Your resignation as President, Chief Executive Officer, Chairman of the Board, and a member of the Company's Board of Directors, and from your positions as director and/or officer of each of the Company's subsidiaries where you so serve (except as otherwise provided in paragraph 8(b) herein), shall be effective June 30, 2000, or on such earlier date as the Board of Directors of the Company (the "Board") may determine. Your resignation as an employee of the Company shall be effective June 30, 2000 (the "Termination Date").

2. PAYMENT OF COMPENSATION AND BENEFITS.

(a) You will receive your normal salary through the Termination Date, and all regular and mandatory payroll deductions will be taken from your final paycheck. Your participation in the Company's employee benefit programs shall cease as of the Termination Date, except to the extent provided in Paragraph 6 below.

(b) You will be eligible for a bonus for the full fiscal year 2000, based upon your bonus target and the determination by the Board with respect to payment of bonuses, if any, to senior

management of the Company under the Company's fiscal year 2000 Management Incentive Plan.

3. CONSULTING PAYMENTS. As consideration for the consulting services you agree to provide pursuant to Paragraph 8 and the other covenants contained in this Agreement, the Company agrees to pay you compensation in the amounts and payable as follows: \$750,000 on the Effective Date (as defined in Paragraph 23 hereof); and \$750,000 on the Termination Date. You understand and agree that this compensation is front-loaded and is payment in full for your services throughout the Consultancy Period and the other covenants contained in this Agreement. All payments will be subject to the Company's deduction of applicable withholding taxes and other regular and mandatory deductions. However, in the event of a material breach by you of any of your covenants under this Agreement, the Company's obligation to make such payments shall immediately cease, and you shall be required to promptly reimburse the Company in full for any such payments made by the Company to you.

4. OTHER PLANS AND AGREEMENTS. You are a participant in the Company's Extended Severance Plan ("Severance Plan"). If, prior to the Termination Date, you become eligible for severance payments under the Severance Plan, and the amount of such severance payments exceeds the amount payable to you under Paragraph 3 above, then, in lieu of your receiving severance payments under the Severance Plan, the payments in Paragraph 3 shall be increased to an amount equal to such severance payments, and all other provisions of this Agreement shall remain the same.

5. STOCK OPTIONS. You currently hold outstanding stock options for shares of the Company's common stock. A schedule setting forth these options, their grant dates, exercise prices, vesting schedules and expiration dates, is attached as Attachment "A" and incorporated herein by reference. At the Termination Date all such options outstanding at that time shall be immediately and fully vested and exercisable. Thereafter all such options shall be fully exercisable until the dates of their expiration; provided, however, that the Company may cancel any unexpired option at any time if you are in violation of any of your covenants under Paragraph 9 hereof, without regard to the time limitation provided for therein. To the extent the options are non-qualified options under the federal income tax laws, you shall recognize compensation income in connection with your exercise of those options, and you agree to satisfy all applicable withholding taxes associated with each such exercise.

#### 6. BENEFITS.

(a) The Company shall continue to provide you, from the Termination Date through June 30, 2005, such medical and group insurance benefits as are at least as favorable as the most favorable medical and group insurance benefits provided from time to time to senior executives of the Company. Notwithstanding the foregoing, if you are covered under any medical or group insurance plans provided by a subsequent employer, such coverages will be primary to those provided by the Company.

(b) At the Termination Date the Company shall assign its rights and interests to you, or your designee, in the Collaterally Assigned Split Dollar Universal Life insurance policies in your name that you have previously collaterally assigned to the Company.

(c) You are a participant in the Company's Deferred Compensation Plan. For purposes of the plan you have advised the Company that your severance from employment at the Termination Date shall be deemed a Termination of Employment as that term is defined in the plan. Distribution to you of your account balance shall be made in accordance with the provisions of the plan.

7. INDEMNIFICATION AND ASSISTANCE.

(a) If you are subjected to any claim or demand involving any action or inaction allegedly taken by you during the course of your employment or directorship with the Company, you will be entitled to all rights of indemnification which may then be available to other executive officers or directors of the Company, including, without limitation, insurance protection under any director and/or officer liability insurance coverage maintained by the Company or any subsidiary and any rights to indemnification provided by applicable law or the By-laws of the Company or any subsidiary, and the Company will, and shall cause any subsidiary to, cooperate fully with you in responding to or defending against any such claim or demand.

(b) You agree to make yourself available to respond to inquiries by the Company regarding management, regulatory, and legal activities of which you acquired knowledge while employed by the Company. You agree to make yourself available, without the requirement of being subpoenaed, to confer with counsel at reasonable times and locations and upon reasonable notice concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the company during your period of employment. You further agree to submit to deposition and/or testimony in accordance with the laws of the forum involved concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the company during your period of employment.

8. CONSULTING AND BOARD SERVICE.

(a) As a condition to, and in consideration for, the severance benefits you are to receive herein, you agree to make yourself available to perform consulting services reasonably requested of you during the period beginning from the Termination Date and ending on June 30, 2005 (the "Consultancy Period"). You agree to make yourself reasonably available to render up to 75 hours of consulting services per each of the Company's fiscal quarters during the Consultancy Period, provided that such consulting services do not materially conflict with your then-existing activities or commitments. All assignments will come from the Chief Executive officer of the Company, and you will

report directly to such person with respect to each assignment. Should you be requested to render more than the required 75 hours of consulting services per fiscal quarter, then you will be compensated for those additional hours at an hourly rate to be agreed upon by you and the Chief Executive Officer of the Company at the time such consulting services are to be rendered. You will be reimbursed for all reasonable out-of-pocket expenses incurred in rendering such consulting services upon your submission of appropriate documentation for those expenses. During the Consultancy Period, you will not make any representations to any third party that you are an officer or employee of the Company or a member of the Company's Board of Directors. Any proprietary information or other confidential information of the Company to which you may have access in the performance of your consulting services will be held in confidence and will not be disclosed to any third party or otherwise directly or indirectly used by you, except to the extent necessary to perform your consulting services.

(b) The Company shall cause you to be elected as Chairman of the Board of the following subsidiaries of the Company: Connex, Inc. and SageTree, Inc. During your service as Chairman and a director of each company you shall be entitled to receive such compensation and other benefits, if any, as are afforded to outside directors of such company. The foregoing notwithstanding, the Company may at any time or from time to time change the organization, structure or operation of each such company, or the composition of its Board of Directors, and it is understood by you that any such changes may include the removal of you as Chairman and/or a director of each such company.

#### 9. YOUR COVENANTS.

As a condition to, and as consideration for, the severance and other benefits you are to receive herein, you agree that you will not, at any time during the Consultancy Period:

(a) directly or indirectly, whether for your own account or as an employee, director, consultant or advisor, provide services to any business or engage in any business which at the time of commencement of such services is competitive with the Company's or any of its subsidiaries' product lines or business activities, unless you obtain the prior written consent of the Company's Chief Legal Officer;

(b) directly or indirectly solicit any individuals to leave the Company's (or any of its subsidiaries') employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company (or any of its subsidiaries) and its current or prospective employees;

(c) induce or attempt to induce any customer, supplier, distributor, licensor, licensee or other business relation of the Company (or any of its subsidiaries) to cease doing business with the Company (or any of its subsidiaries) or in any way interfere with the existing business relationship between any such

customer, supplier, distributor, licensor, licensee or other business relation and the Company (or any of its subsidiaries); or

(d) disparage, defame or slander the Company (or any of its subsidiaries) or any of their officers or directors or any of its products or services, to any one, including but not limited to any past, present or prospective customers. The foregoing sentence is not applicable to comments you may make to your immediate family. During the Consultancy Period the Company's Board of Directors and its officers shall refrain from any disparagement, defamation or slander of you.

10. CONFIDENTIAL INFORMATION. When you joined the Company you signed an agreement setting forth your obligations to us during and after your employment. A copy of your agreement is attached hereto as Attachment "B" and incorporated herein by reference. You understand and agree that in the course of your employment with the Company, you have acquired confidential information and trade secrets concerning the Company's operations, its future plans and its methods of doing business. You understand and agree it would be extremely damaging to the Company if you disclosed such information to a competitor or made it available to any other person or company. You understand and agree that such information has been divulged to you in confidence, and you understand and agree that you will keep such information secret and confidential unless disclosure is required by court order or otherwise by compulsion of law. In view of the nature of your employment and the information and trade secrets which you have received during the course of your employment, you also agree that the Company would be irreparably harmed by any violation, or threatened violation of the agreements in this Paragraph and that, therefore, the Company shall be entitled to an injunction prohibiting you from any violation or threatened violation of such agreements.

11. RELEASE OF CLAIMS. Neither the Board of Directors nor any of the elected officers of the Company presently has any knowledge of any claims or causes of action that the Company might have or assert against you arising from any omissions, acts or facts that have occurred up until and including the Effective Date of this Agreement (as defined in Paragraph 23 hereof). You agree that the consideration provided for in this Agreement represents payment in full of all outstanding obligations owed to you by the Company or any subsidiary of the Company. You, on behalf of yourself and your heirs, agents, representatives, immediate family members, executors, successors, and assigns, hereby fully and forever release the Company and our agents, directors, employees, attorneys, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns from, and agree not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that you may possess against the Company arising from any omissions, acts or facts that have occurred up until and including the Effective Date including, without limitation,

Mr. Charles A. Haggerty  
October 1, 1999  
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(a) any and all claims relating to or arising from your relationship with the Company or any subsidiary of the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, your right to purchase, or actual purchase of shares of stock of the Company or any subsidiary of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and the California Labor Code;

(e) any and all claims for violation of the federal or any state constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorneys' fees and costs.

Each of us agrees that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement.

12. ACKNOWLEDGMENT OF WAIVER OF CLAIMS UNDER ADEA. You acknowledge that you are waiving and releasing any rights you may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. You and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. You acknowledge that the consideration given for this waiver and release Agreement is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing that (a) you should consult with an

Mr. Charles A. Haggerty  
October 1, 1999  
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attorney prior to executing this Agreement; (b) you have at least twenty-one (21) days within which to consider this Agreement; (c) you have seven (7) days following the execution of this Agreement by you to revoke the Agreement, and (d) this Agreement shall not be effective until the revocation period has expired. Any revocation should be in writing and delivered in accordance with the notice provisions of Paragraph 19 hereof by close of business on the seventh day from the date that you sign this Agreement.

13. CIVIL CODE SECTION 1542. You represent that you are not aware of any claim other than the claims that are released by this Agreement. You acknowledge that you have been advised by legal counsel and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

You, being aware of said code section, agree to expressly waive any rights you may have thereunder, as well as under any other federal or state statute or common law principles of similar effect.

14. REMEDIES IN EVENT OF FUTURE DISPUTE.

(a) Except as provided in subparagraph (b) below, in the event of any future dispute, controversy or claim between us arising from or relating to this Agreement, its breach, any matter addressed by this Agreement, and/or your employment with the Company through the Termination Date, we will first attempt to resolve the dispute through confidential non-binding mediation to be conducted in Orange County, California by JAMS-Endispute or such other mediator as we shall mutually agree upon. If our dispute is not resolved through mediation, we will submit it to final and binding confidential arbitration to be conducted in Orange County, California by JAMS/Endispute in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, we shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. If we cannot agree on an arbitrator, the Administrator of JAMS/Endispute shall appoint an arbitrator. Neither one of us nor the arbitrator shall disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both of us, except as may be compelled by court order. Except as provided herein, the Federal Arbitration Act shall govern the interpretation and enforcement of such arbitration and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California, or Federal law, or both, as applicable and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by either of us and shall apply the standards governing such motions under the

Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. Each of us intends this arbitration provision to be valid, enforceable, irrevocable and construed as broadly as possible. Pending the resolution of any dispute between us, the Company shall continue prompt payment of all amounts due you under this Agreement and prompt provision of all benefits to which you are otherwise entitled.

(b) In the event that a dispute arises concerning compliance with this Agreement, either of us will be entitled to obtain from a court with jurisdiction over us preliminary and permanent injunctive relief to enjoin or restrict the other party from such breach or to enjoin or restrict a third party from inducing any such breach, and other appropriate relief, including money damages. In seeking any such relief, however, the moving party will retain the right to have any remaining portion of the controversy resolved by binding confidential arbitration in accordance with subparagraph (a) above.

(c) The prevailing party in any such arbitration or court proceeding shall be entitled to recover from the losing party his or its reasonable costs and expenses incurred in connection with the arbitration or court proceeding.

15. ASSIGNMENT. The rights and obligations of the company under this Agreement shall inure to the benefit of and shall be binding upon the present and future subsidiaries of the Company, any and all subsidiaries of a subsidiary, all affiliated corporations, and successors and assigns of the Company. No assignment of this Agreement by the Company will relieve the Company of its obligations. You shall not assign any of your rights and/or obligations under this Agreement and any such attempted assignment will be void. This Agreement shall be binding upon and inure to the benefit of your heirs, executors, administrators, or other legal representatives and their legal assigns.

16. WAIVER. A waiver by either us of any of the terms or conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future, or of any subsequent breach thereof. All remedies, rights, undertakings, obligations, and agreements contained in this Agreement shall be cumulative, and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either of us.

17. TAX CONSEQUENCES. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to you under the terms of this Agreement. You agree and understand that you are responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon.

18. COSTS. Except as provided in Paragraph 14 hereof, each of us shall each bear our own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

19. NOTICES. All notices required by this Agreement shall be given in writing either by personal delivery or by first class mail, return receipt requested. Notices shall be addressed as follows:

To Western Digital:                   Western Digital Corporation  
  8105 Irvine Center Drive  
  Irvine, CA 92618  
  Attention: General Counsel

To Mr. Haggerty:                    27 Le Conte  
  Laguna Niguel, CA 92677

or in each case to such other address as you or the Company shall notify the other. Notice given by mail shall be deemed given five (5) days following the date of mailing.

20. ENTIRE AGREEMENT. Except as provided in Paragraph 4 hereof, this Agreement, including its Attachments, represents the entire agreement and understanding between you and the Company concerning the subject matter herein, and supersedes and replaces any and all prior agreements and understandings.

21. NO ORAL MODIFICATION. This Agreement may only be amended by a writing signed by you and the then Chief Executive Officer of the Company or the Chief Legal Officer of the Company.

22. GOVERNING LAW. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

23. EFFECTIVE DATE. This Agreement is effective eight days after it has been signed by both of us (the "Effective Date").

24. COUNTERPARTS. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of us.

25. VOLUNTARY EXECUTION OF AGREEMENT. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of each of us, with the full intent of releasing all claims. Each of us acknowledges that:

(a) we have read this Agreement;

(b) we have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of our own choice or that we have voluntarily declined to seek such counsel;

(c) we understand the terms and consequences of this Agreement and of the releases it contains; and

(d) we are fully aware of the legal and binding effect of this Agreement.

Mr. Charles A. Haggerty  
October 1, 1999  
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Please indicate your agreement to the above by signing below.

Very truly yours,

Western Digital Corporation

/s/ MICHAEL A. CORNELIUS

Michael A. Cornelius

Agreed to by

/s/ CHARLES A. HAGGERTY

-----  
Charles A. Haggerty

Sept. 30, 1999  
Irvine, California

July 6, 1999

Mr. David W. Schafer  
21 Emerald  
Irvine, CA 92714

Dear Dave:

This letter, when signed by you, constitutes the agreement ("Agreement") relative to your resignation from Western Digital Corporation (the "Company"). The terms of this Agreement are as follows:

1. You will continue to work on site in your position as Senior Vice President, Strategic Customer Relations until October 1, 1999.
  - 1a. You have agreed to serve as Master of Ceremonies at Service Recognition Dinners in Irvine and San Jose during September, 1999.
2. You will continue to be treated as an employee, including stock option vesting, until the earlier of March 31, 2000 or your death. During such time you will be available for occasional consulting of up to two days per month as reasonably agreed by the Company and you. Stock options previously granted to you under the Employee Stock Option Plan will continue to vest in accordance with their terms, which during the period from October 1, 1999 through March 31, 2000 would result in the vesting of 20,188 to 27,960 additional exercisable shares.
3. You will be paid \$137,500.00 in salary continuation. Thirteen (13) bi-weekly payments of \$10,576.92 will begin on October 15, 1999, and conclude on March 31, 2000. Your Deferred Compensation Plan balance will be paid to you within 90 days of March 31, 2000.
4. Any exercise of stock options by you must be in accord with the provisions of your stock option agreements and with the procedures relating to exercise as may be established by the Compensation Committee of the Board of Directors from time to time. All such procedures, unless they are to your benefit, shall be of general application and will not apply specifically to you. The Company will act expeditiously and in a supportive manner in assisting you to exercise your options. You will have up to 3 months following March 31, 2000 to exercise your vested options.

5. Until March 31, 2000, you will continue to receive benefits accorded to employees generally, other than vacation accruals, and benefits accorded to you and other executives in comparable pay grades ("special benefits"), provided that such special benefits continue to be furnished to executives generally in comparable pay grades. These include:
- a) your flex benefit allowance of \$339.03 per pay period
  - b) Employee Stock Purchase Plan (ESPP) will continue and deductions will be made from your salary continuation checks until the next purchase date.
  - c) 401(k) participation and Western Digital employer match will continue with deductions coming from your salary continuation checks.
  - d) Financial planning assistance of up to \$5,000 per fiscal year for executive tax consultation will continue.
  - e) Supplemental executive medical coverage up to \$3,000 per fiscal year will continue.
  - f) Auto allowance of \$323.08 per pay period.

If any benefits (including special benefits) are discontinued and adjustments are made to compensation or benefits of employees generally, or of executives in comparable pay grades, in lieu of the discontinued benefits, and if such discontinuances apply to you under this agreement, then in such instances like adjustments will be made to payments or benefits accorded to you with respect to the period through March 31, 2000. No actions will be taken with respect to the monies payable or the benefits accorded to you that are intended to affect adversely only you or other terminating employees, unless such actions are taken as a result of a material breach by you of any of your obligations under this agreement. Should you take another position, prior to the expiration of your salary continuation, as an employee of a company with health insurance coverages, Western Digital's health coverages stop at the end of the month in which you start to work for the other company. On May 31, 2000 (sixty days after your termination date), all Western Digital benefits will cease. You may be entitled to continued basic health insurance coverage under the Company's COBRA plan. If you so elect, this continuation will be on terms consistent with applicable federal laws and regulations. If you elect and are eligible to continue this coverage, you will be charged a monthly premium to cover the cost of providing this insurance including a small administrative fee, Our benefits administration staff will give you complete details in this regard.

6. You and the Company agree that the terms of this arrangement will be held in confidence except to the extent that disclosures may be required by government regulations or judicial process or to receive tax, legal or financial advice. References which may request information about your employment will be referred to the Vice President of Human Resources.

7. By October 15, 1999 you will be paid all accrued, unused vacation. Although you will continue on the Company payroll through March 31, 2000 you will accrue no more vacation subsequent to October 1, 1999.
8. Any distributions to which you are entitled from the Savings and Profit Sharing Plan will be made to you in accordance with the terms of that plan after your termination date of March 31, 2000.
9. The Company will provide executive outplacement assistance through Lee Hecht Harrison or another firm of your choosing if you wish. Contact Pam Burdi at (949) 932-5516 for assistance with these arrangements.
10. You agree that, for the period beginning October 1, 1999 and ending March 31, 1999 you will not provide services to a "direct competitor" of the Company. You and the Company agree that, for purposes of the Agreement, the terms "direct competitor" shall mean a division of a business (a) which is a significant direct competitor of the Company as of the date of this Agreement, and (b) which is currently in the business of manufacturing and selling Winchester type magnetic hard drives. Provided, however, that nothing in this Agreement shall prevent you from accepting employment with another business which is not a direct competitor with the Company and/or competing with the Company in a manner consistent with the terms of this Agreement.
11. You agree that, until March 31, 2000, you will observe and be bound by all fiduciary duties and duties of loyalty which were applicable to you as an employee of the Company. Additionally, you agree that at any time prior to March 31, 2000, you will not induce any active employee of the Company or of any of its subsidiaries, to terminate his or her employment with the Company or any subsidiary of the Company, unless you first obtain written permission from the Chief Executive Officer or the Vice President of Human Resources of the Company, provided however, that you shall not be considered to have induced an employee to terminate his or her employment with the Company if you respond to good faith inquiries by said persons initiated other than by you.
12. In the course of your employment, and because of the nature of your responsibilities, you have acquired and may continue to acquire confidential information and trade secrets with regard to the Company's business operations, including, but not limited to, the names and addresses of its clients and their respective contact points, marketing materials, financial data and analysis, technical know-how, business plans and strategies, forecasts, and other similar information (collectively the "Confidential Information"). You agree that the Confidential Information has been developed at considerable expense and effort by the Company, is not generally known to the public at large, is not readily ascertainable by

proper means, has been the subject of reasonable efforts to maintain its secrecy, and has at all times remained in the exclusive property of the Company. You agree that you shall not, at any time during or after your employment with the Company, directly or indirectly disclose, divulge, reveal, report, publish, transfer, or use, for any purpose, any Confidential Information which has been obtained by or disclosed to you as a result of your employment by the Company, including any Confidential Information, except as may be required by law. You further agree that any and all of the Confidential Information, including all intellectual property rights therein, shall be and shall remain the sole and exclusive property of Western Digital.

13. You and the Company agree that in the event the Company determines in good faith that you have violated the terms of paragraphs 10, 11, or 12, the Company may make any remaining unpaid payments due to you pursuant to paragraph 3 hereof into a third party escrow account pending further agreement of the parties or the award of an arbitrator pursuant to the arbitration provisions of this paragraph. The arbitrator shall be authorized to determine whether the remaining payment obligations under paragraph 3 of this Agreement shall continue notwithstanding any alleged breach of this Agreement or are terminated as a result of the alleged breach. In the event an arbitrator determines that you have violated the terms of paragraphs 10, 11, or 12, then the arbitrator shall be authorized to direct payment of the money (including any accrued interest) from the escrow account to the Company and order that the Company is not required to make any further payments to you under paragraph 3, and award the Company any other appropriate remedies.

Additionally, in no event shall you be required to pay to the Company any payments received prior to the date that the Company notifies you of the alleged breach of the paragraphs 10, 11, or 12. In the event an arbitrator determines that you have not violated the terms of paragraphs 10, 11, or 12, then the arbitrator shall be authorized to direct payment of any money (including accrued interest, if any) held in the escrow account to you and award you any other appropriate remedies.

14. None of the officers of the Company (i.e. officers elected by the Board of Directors) have knowledge of any claims which the Company might assert against you, and for the period that you are and have been employed by the Company you will be afforded the protections provided for under the Company's Bylaws, indemnification agreements and the various insurance policies carried by the Company that would apply to you.

15. In consideration for the payments and benefits provided to you pursuant to this Agreement, you hereby irrevocably and unconditionally release, acquit and forever discharge Western Digital Corporation, all of its current and former subsidiaries, affiliates, divisions, successors, predecessors, related corporate entities, assigns, owners,

stockholders, directors, officers, current and former employees, agents, representatives, attorneys, insurers and all persons acting by, through, under or in concert with any of them (collectively "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs) actually incurred of any nature whatsoever, known or unknown, suspected or unsuspected ("Claim" or "Claims") which you now have, own or hold, or claim to have, own or hold, or which you at any time heretofore had, owned or held, or claimed to have had, owned or held against any of the Releasees relating to any event, act or omission that has occurred as of the date of the Agreement, including, but by no means limited to, any events arising out of your employment with Western Digital Corporation. The Claims which you are releasing include, but are not limited to, claims for discrimination, harassment and retaliation under the California Fair Employment and Housing Act, Title VII of the Civil Rights Act, the Age Discrimination in Employment Act and public policy, claims for disability and medical condition discrimination under the Americans with Disabilities Act and the California Fair Employment and Housing Act, claims for wrongful termination, breach of implied or express contract, and breach of the covenant of good faith and fair dealing, claims for wages, penalties and interest under the California Wage Orders, the Fair Labor Standards Act and the California Labor Code, claims for injuries purportedly occurring in the course and scope of employment, claims under the California Workers' Compensation Act, tort claims for intentional infliction of emotional distress, defamation, and all claims like or related to any of the foregoing.

16. You also expressly waive and relinquish all rights and benefits afforded by Section 1542 of the Civil Code of the State of California, and do so understanding, and acknowledging the significance and consequence of such specific waiver of Section 1542. Section 1542 of the Civil Code of the State of California states as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in their favor at the time of executing the release, which if known by him must have materially affected their settlement with the debtor.

Thus, notwithstanding the provisions of Section 1542, and for the purpose of implementing a full and complete release and discharge of the Releasees, you expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which you do not know or suspect to exist in your favor at the time of execution thereof, and that this Agreement contemplates the extinguishment of any such Claim or Claims.

- 17. You should consult with an attorney concerning this Agreement. By signing this Agreement, you acknowledge that you have carefully read this Agreement, understand it and are voluntarily entering into it.
- 18. The undersigned persons represent and warrant that they have been duly authorized to execute this agreement on behalf of the person, or corporations as described below.
- 19. This agreement shall be construed in accordance with, and all disputes arising thereunder shall be governed by, the laws of the State of California.
- 20. You have up to twenty-one days from the date of your receipt of this Agreement to consider this Agreement. You also have seven days after execution of this Agreement to revoke it in writing. This Agreement shall not be effective or enforceable until the revocation period has expired.

WESTERN DIGITAL CORPORATION

Jack Van Berkel  
Vice President  
Human Resources

JVB: kl

I have read and agree to all terms and conditions as outlined above.

-----  
David W. Schafer

-----  
Date

MARCH, 2000 STATUS OF BENEFITS UPON  
TERMINATION OF EMPLOYMENT - DAVE SCHAFER

The following information is to help you understand the status of your benefits if you are affected by a reduction in work force.

MEDICAL INSURANCE

Medical coverage continues until May 31, 2000.

DENTAL INSURANCE

Dental coverage continues until May 31, 2000.

VISION INSURANCE

Vision coverage continues until May 31, 2000.

COBRA CONTINUATION COVERAGE

Continuation privileges may be available through COBRA for the medical, dental, vision, and health care reimbursement plans you are enrolled in at the time of termination. COBRA information and election forms will be mailed to you by the COBRA administrator for Western Digital (COBRAPRO) within two weeks from your last date of coverage.

LIFE INSURANCE

Life insurance coverage continues until May 31, 2000. Conversion privileges to an individual policy are available after your coverage terminates. You must apply with the insurance carrier within 31 days. Conversion forms are available at the Benefits Department.

ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE (AD&D)

Accidental death and dismemberment insurance coverage continues until May 31, 2000. Conversion privileges to an individual policy are available after your coverage terminates. You must apply with the insurance carrier within 31 days. Conversion forms are available at the Benefits Department.

DEPENDENT LIFE INSURANCE

Dependent life insurance coverage continues until May 31, 2000. Conversion privileges to an individual policy are available after your coverage terminates. You must apply with the insurance carrier within 31 days. Conversion forms are available at the Benefits Department.

BUSINESS TRAVEL ACCIDENT COVERAGE

Business travel accident coverage will end on your last active day at work for Western Digital which is October 1, 1999. Under the terms of the contract, no conversion privileges are available.

## LONG-TERM DISABILITY

Long-term disability coverage will end on your last active day at work for Western Digital, October 1, 1999. Conversion privileges to an individual policy are available by completing an application and submitting the first quarterly premium within 31 days of our termination of group coverage. To qualify for conversion, you must have been covered under the current group plan for 12 consecutive months. Conversion forms are available at the Benefits Department.

## SHORT-TERM DISABILITY

Short-term disability coverage will end on your last day actively at work for Western Digital, October 1, 1999, Under the terms of the contract, no conversion privileges are available.

## REIMBURSEMENT ACCOUNTS

If contributions continue to be deducted from scheduled payments, Health Care and Dependent Care Account claims may be reimbursed for ELIGIBLE EXPENSES INCURRED UP TO THE LAST DAY OF YOUR BENEFITS COVERAGE. Money left over in the account(s) at the end of the plan year (June 30) is forfeited. You will have a 90 day grace period (through August 30, 2000) to file a claim for reimbursement. Send the claims to FlexPro, P. O. Box 5545, Orange, CA 92613. Telephone (949) 835-6752, Fax (949) 953-9404.

## MANAGED HEALTH NETWORK (MHN)

The MHN program will continue for you and your dependents until May 31, 2000. The toll free number is 800-327-8399. However, if you elect COBRA continuation, you may still be eligible to continue MHN benefits.

## RETIREMENT SAVINGS (401(k)) &amp; PROFIT SHARING PLAN

As a participant in this plan, you will continue to participate in the plan until March 31, 2000. The company match is effective until March 31, 2000. After that date, you will receive 100% of your employee account, plus 100% of the profit sharing account, and the vested portion of the employer match account.

For information regarding rollover or distribution of your account, call T. Rowe Price at 800-922-9945. If you wish to withdraw your account from the plan, simply return the termination package that will be sent to you from T. Rowe Price. If your account is over \$3,500.00, you may defer the withdrawal of your account until a future point in time,

CONTRIBUTIONS CONTINUE: Contributions will continue to be deducted from wage continuation payments unless you call T. Rowe Price at 800-922-9945 to suspend your contributions.

SAVINGS 401(K) PLAN LOANS: Bi-weekly loan payments will continue to be deducted from wage continuation payments. You will choose one of the following options to be effective after your last

wage continuation payment: 1) continue making loan payments, 2) repay the entire outstanding loan balance, or 3) elect final distribution upon which any outstanding loan balance will be treated as a taxable distribution. You must complete a Loan Repayment form indicating your selection that will be provided in the T. Rowe Price termination package.

#### EMPLOYEE STOCK PURCHASE PLAN

You will continue to participate in ESPP through March 31, 2000. Deductions for ESPP will be made from your wage continuation checks. If you have previously purchased shares, then you can keep or sell them as you wish.

#### STOCK OPTIONS

If you have received stock options, they will vest through your date of termination from Western Digital in accordance with the plan provisions. Contact Stasia Shirley at 949-932-5645 for more information.

#### VACATION

All earned but unused vacation will be paid by the first wage continuation payment following your last day of active employment with Western Digital.

Vacation Buy: The cost of the extra hours you have taken but not paid for will be subtracted from your final paycheck.

Vacation Sell: The remaining amount and any accrued vacation that you haven't taken is paid to you. Exception: If you term with a negative vacation balance, the value of those hours will be subtracted from your final paycheck.

#### SICK LEAVE

All unused sick leave will be forfeited in accordance with the policy of Western Digital.

#### EDUCATIONAL REIMBURSEMENT

If you have received prior educational approval for classes that have started, but which you will not complete before your termination date, you are eligible for reimbursement for the classes you are currently attending. Reimbursement will be made following the company's receipt of proof that the class was successfully completed based on the policy guidelines.

#### CREDIT UNION

Membership is lifetime and is not based on continuing employment with Western Digital

#### CALIFORNIA STATE UNEMPLOYMENT BENEFITS

You can file an application for unemployment benefits immediately, however your eligibility for benefits (as determined by the EDD-Employment Development Department) will be delayed until after your last Wage Continuation payment on March 31, 2000.

If you have any questions, need to request forms, or need life conversion forms,  
contact:

WESTERN DIGITAL  
BENEFITS DEPARTMENT  
8105 IRVINE CENTER DRIVE  
IRVINE, CA 92618  
949-932-5700

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 3-MONTH PERIOD ENDED OCTOBER 3, 1999.

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3-MOS		
	JUL-01-2000	
	JUL-03-1999	
	OCT-02-1999	
		185,054
		0
		104,783
		17,528
		207,741
	525,725	
		514,556
		327,575
		830,212
574,068		
		371,365
	0	
		0
		1,232
		(131,929)
830,212		
		406,957
	406,957	
		472,300
		472,300
	126,265	
	500	
	(5,329)	
	(196,937)	
		0
(196,937)		
		0
	90,622	
		0
	(106,315)	
	(1.11)	
	(1.11)	