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, 2015

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	**33-0956711**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3355 Michelson Drive, Suite 100 **Irvine, California**	**92612**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (949) 672-7000

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of the close of business on November 4, 2015, 231,715,839 shares of common stock, par value $.01 per share, were outstanding.

WESTERN DIGITAL CORPORATION

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Our fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Approximately every six years, we report a 53-week fiscal year to align our fiscal year with the foregoing policy. Our fiscal first quarters ended October 2, 2015 and October 3, 2014 consisted of 13 weeks and 14 weeks, respectively. Fiscal year 2015 was comprised of 53 weeks and ended on July 3, 2015. Fiscal year 2016 will be comprised of 52 weeks and will end on July 1, 2016. Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters, and references to financial information are on a consolidated basis. As used herein, the terms "we," "us," "our," the "Company," "WDC" and "Western Digital" refer to Western Digital Corporation and its subsidiaries, unless, we state, or the context indicates, otherwise.

WDC, a Delaware corporation, is the parent company of our data storage business. Our principal executive offices are located at 3355 Michelson Drive, Suite 100, Irvine, California 92612. Our telephone number is (949) 672-7000 and our website is www.westerndigital.com. The information on our website is not incorporated in this Quarterly Report on Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par values; unaudited)

	October 2, 2015	July 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,081	$ 5,024
Short-term investments	347	262
Accounts receivable, net	1,616	1,532
Inventories	1,260	1,368
Other current assets	351	331
Total current assets	8,655	8,517
Property, plant and equipment, net	2,890	2,965
Goodwill	2,766	2,766
Other intangible assets, net	319	332
Other non-current assets	631	601
Total assets	$ 15,261	$ 15,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,799	$ 1,881
Accrued expenses	528	470
Accrued compensation	336	330
Accrued warranty	141	150
Revolving credit facility	255	255
Current portion of long-term debt	172	156
Total current liabilities	3,231	3,242
Long-term debt	2,109	2,156
Other liabilities	585	564
Total liabilities	5,925	5,962
Commitments and contingencies (Notes 4 and 5)		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized — 5 shares; issued and outstanding — none	—	—
Common stock, $.01 par value; authorized — 450 shares; issued — 261 shares; outstanding — 231 and 230 shares, respectively	3	3
Additional paid-in capital	2,407	2,428
Accumulated other comprehensive loss	(44)	(20)
Retained earnings	9,273	9,107
Treasury stock — common shares at cost; 30 and 31 shares, respectively	(2,303)	(2,299)
Total shareholders' equity	9,336	9,219
Total liabilities and shareholders' equity	$ 15,261	$ 15,181

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts; unaudited)

	Three Months Ended	
	October 2, 2015	**October 3, 2014**
Revenue, net	$ 3,360	$ 3,943
Cost of revenue	2,405	2,794
Gross profit	955	1,149
Operating expenses:		
Research and development	385	437
Selling, general and administrative	192	220
Charges related to arbitration award	—	14
Employee termination, asset impairment and other charges	56	9
Total operating expenses	633	680
Operating income	322	469
Other income (expense):		
Interest and other income	5	4
Interest and other expense	(13)	(13)
Total other expense, net	(8)	(9)
Income before income taxes	314	460
Income tax provision	31	37
Net income	$ 283	$ 423
Income per common share:		
Basic	$ 1.23	$ 1.81
Diluted	$ 1.21	$ 1.76
Weighted average shares outstanding:		
Basic	231	234
Diluted	234	240
Cash dividends declared per share	$ 0.50	$ 0.40

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions; unaudited)

	Three Months Ended	
	October 2, 2015	October 3, 2014
Net income	$ 283	$ 423
Other comprehensive loss, net of tax:		
Net unrealized loss on foreign exchange contracts	(25)	(26)
Net unrealized gain on available-for-sale securities	1	—
Other comprehensive loss, net of tax	(24)	(26)
Total comprehensive income	$ 259	$ 397

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions; unaudited)

	Three Months Ended	
	October 2, 2015	October 3, 2014
Operating Activities		
Net income	$ 283	$ 423
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	236	289
Stock-based compensation	42	39
Deferred income taxes	(7)	10
Loss on disposal of assets	—	4
Non-cash portion of employee termination, asset impairment and other charges	18	1
Changes in:		
Accounts receivable, net	(84)	74
Inventories	105	(46)
Accounts payable	(71)	49
Accrued arbitration award	—	14
Accrued expenses	18	16
Accrued compensation	6	(22)
Other assets and liabilities, net	(1)	(24)
Net cash provided by operating activities	545	827
Investing Activities		
Purchases of property, plant and equipment	(151)	(160)
Proceeds from sales and maturities of investments	124	166
Purchases of investments	(236)	(120)
Other investing activities, net	(10)	(12)
Net cash used in investing activities	(273)	(126)
Financing Activities		
Issuance of stock under employee stock plans	15	39
Taxes paid on vested stock awards under employee stock plans	(43)	(57)
Excess tax benefits from employee stock plans	19	20
Repurchases of common stock	(60)	(223)
Dividends paid to shareholders	(115)	(94)
Repayment of debt	(31)	(31)
Net cash used in financing activities	(215)	(346)
Net increase in cash and cash equivalents	57	355
Cash and cash equivalents, beginning of period	5,024	4,804
Cash and cash equivalents, end of period	$ 5,081	$ 5,159
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 8	$ 10
Cash paid for interest	$ 11	$ 12
Supplemental disclosure of non-cash financing activities:		
Accrual of cash dividend declared	$ 116	$ 94

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 Western Digital Corporation (the “Company”) are set forth in Part II, Item 8, Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended July 3, 2015. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal, recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited 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 for the year ended July 3, 2015. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

The Company's fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Approximately every six years, the Company reports a 53-week fiscal year to align its fiscal year with the foregoing policy. The Company's fiscal first quarters ended October 2, 2015 and October 3, 2014 consisted of 13 and 14 weeks, respectively. Fiscal 2015 was comprised of 53 weeks and ended on July 3, 2015. Fiscal year 2016 will be comprised of 52 weeks and will end on July 1, 2016.

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with U.S. GAAP. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented. However, actual results could differ materially from these estimates.

2. Supplemental Financial Statement Data

Accounts Receivable

From time to time, in connection with a factoring agreement, the Company sells trade accounts receivable without recourse to a third party purchaser in exchange for cash. The Company sold trade accounts receivable and received cash proceeds of $200 million during the three months ended October 2, 2015. The Company did not sell trade accounts receivable during the three months ended October 3, 2014. The discounts on the sales of trade accounts receivable were not material and were recorded within interest and other expense in the condensed consolidated statements of income.

Inventories; Property, Plant and Equipment; and Other Intangible Assets

	October 2, 2015	July 3, 2015
	(in millions)	
Inventories:		
Raw materials and component parts	**$ 135**	$ 168
Work-in-process	**507**	500
Finished goods	**618**	700
Total inventories	**$ 1,260**	$ 1,368
Property, plant and equipment:		
Property, plant and equipment	**$ 8,635**	$ 8,604
Accumulated depreciation	**(5,745)**	(5,639)
Property, plant and equipment, net	**$ 2,890**	$ 2,965
Other intangible assets:		
Other intangible assets	**$ 1,018**	$ 1,008
Accumulated amortization	**(699)**	(676)
Other intangible assets, net	**$ 319**	$ 332

Warranty

The Company records an accrual for estimated warranty costs when revenue is recognized. The Company generally warrants its products for a period of one to five years. The warranty provision considers estimated product failure rates and trends, estimated replacement costs, estimated repair costs which include scrap costs, and estimated costs for customer compensatory claims related to product quality issues, if any. A statistical warranty tracking model is used to help prepare estimates and assist

the Company in exercising judgment in determining the underlying estimates. The statistical tracking model captures specific detail on product reliability, such as factory test data, historical field return rates, and costs to repair by product type. Management's judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited field experience with those products upon which to base warranty estimates. Management reviews the warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that impact current period gross profit and income. Such changes are generally a result of differences between forecasted and actual return rate experience and costs to repair. If actual product return trends, costs to repair returned products or costs of customer compensatory claims differ significantly from estimates, future results of operations could be materially affected. Changes in the warranty accrual were as follows (in millions):

	Three Months Ended	
	October 2, 2015	**October 3, 2014**
Warranty accrual, beginning of period	**$ 221**	$ 182
Charges to operations	**45**	49
Utilization	**(54)**	(49)
Changes in estimate related to pre-existing warranties	**6**	19
Warranty accrual, end of period	**$ 218**	$ 201

The long-term portion of the warranty accrual classified in other liabilities was $77 million as of October 2, 2015 and $71 million as of July 3, 2015.

Investments

The following tables summarize, by major type, the fair value and cost basis of the Company's investments (in millions):

	As of October 2, 2015		
	Cost Basis	**Unrealized Gains**	**Fair Value**
Available-for-sale securities:			
U.S. Treasury securities	279	1	280
U.S. Government agency securities	116	—	116
Commercial paper	86	—	86
Certificates of deposit	221	—	221
Total	$ 702	$ 1	$ 703

	As of July 3, 2015		
	Cost Basis	**Unrealized Gains (Losses)**	**Fair Value**
Available-for-sale securities:			
U.S. Treasury securities	$ 287	$ —	$ 287
U.S. Government agency securities	95	—	95
Commercial paper	109	—	109
Certificates of deposit	99	—	99
Total	$ 590	$ —	$ 590

The fair value of the Company's investments classified as available-for-sale securities at October 2, 2015, by remaining contractual maturity, were as follows (in millions):

	Cost Basis	**Fair Value**
Due in less than one year (short-term investments):	$ 347	$ 347
Due in one to five years (included in other non-current assets):	355	356
Total	$ 702	$ 703

The Company determined no available-for-sale securities were other-than-temporarily impaired during the three months ended October 2, 2015 and October 3, 2014. For more information on the Company's available-for-sale securities, see Note 7 to these condensed consolidated financial statements.

From time to time, the Company enters into certain strategic investments for the promotion of business and strategic objectives. These strategic investments are recorded at cost within other non-current assets in the condensed consolidated balance sheets and were not material to the condensed consolidated financial statements as of October 2, 2015 and July 3, 2015.

Other Comprehensive Loss, Net of Tax

Other comprehensive loss, net of tax refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income. The income tax impact on components of other comprehensive income is immaterial for all periods presented.

The following table illustrates the changes in the balances of each component of accumulated other comprehensive loss for the three months ended October 2, 2015 (in millions):

	Actuarial Pension Gain	Unrealized Gain (Loss) on Foreign Exchange Contracts	Unrealized Gain on Available for Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at July 3, 2015	$ 5	$ (25)	$ —	$ (20)
Other comprehensive loss before reclassifications	—	(53)	1	(52)
Amounts reclassified from accumulated other comprehensive income	—	28	—	28
Net current-period other comprehensive loss	—	(25)	1	(24)
Balance at October 2, 2015	$ 5	$ (50)	$ 1	$ (44)

The following table illustrates the changes in the balances of each component of accumulated other comprehensive loss for the three months ended October 3, 2014 (in millions):

	Actuarial Pension Gain	Unrealized Gain (Loss) on Foreign Exchange Contracts	Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income (Loss)
Balance at June 27, 2014	$ 7	$ 5	$ —	$ 12
Other comprehensive loss before reclassifications	—	(22)	—	(22)
Amounts reclassified from accumulated other comprehensive loss	—	(4)	—	(4)
Net current-period other comprehensive loss	—	(26)	—	(26)
Balance at October 3, 2014	$ 7	$ (21)	$ —	$ (14)

3. Income per Common Share

The Company computes basic income per common share using net income and the weighted average number of common shares outstanding during the period. Diluted income per common share is computed using net income and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include dilutive outstanding employee stock options, rights to purchase shares of common stock under the Company's Employee Stock Purchase Plan ("ESPP") and restricted stock unit awards ("RSUs").

The following table illustrates the computation of basic and diluted income per common share (in millions, except per share data):

	Three Months Ended	
	October 2, 2015	**October 3, 2014**
Net income	**$ 283**	$ 423
Weighted average shares outstanding:		
Basic	**231**	234
Employee stock options and other	**3**	6
Diluted	**234**	240
Income per common share:		
Basic	**$ 1.23**	$ 1.81
Diluted	**$ 1.21**	$ 1.76
Anti-dilutive potential common shares excluded*	**4**	—

* For purposes of computing diluted income per common share, certain potentially dilutive securities have been excluded from the calculation because their effect would have been anti-dilutive.

4. Debt

The Company's credit agreement, which was entered into in January 2014 and subsequently amended (the "Credit Agreement"), provides for $4.0 billion of unsecured loan facilities consisting of a $2.5 billion term loan facility and a $1.5 billion revolving credit facility. The loans under the Credit Agreement have a five-year term. Subject to certain conditions, the credit facilities may be expanded by, or incremental term loans may be obtained for, up to $1.0 billion if existing or new lenders provide additional term or revolving commitments.

The term loans and the revolving credit loans may be prepaid in whole or in part at any time without premium or penalty, subject to certain conditions. As of October 2, 2015, the revolving credit facility had a variable interest rate of 1.7% and an outstanding balance of $255 million. The revolving credit facility is classified within current liabilities as of October 2, 2015 due to the Company's intent to repay the borrowings within the next 12 months. As of October 2, 2015, the term loan facility had a variable interest rate of 1.7% and a remaining outstanding balance of $2.3 billion. The Company is required to make quarterly principal payments on the term loan facility totaling $125 million for the remainder of fiscal 2016, $219 million in fiscal 2017, $250 million in fiscal 2018 and the remaining balance of $1.7 billion in fiscal 2019.

The Credit Agreement requires the Company to comply with a leverage ratio and an interest coverage ratio calculated on a consolidated basis for the Company and its subsidiaries. In addition, the Credit Agreement contains customary covenants, including covenants that limit or restrict the Company’s and its subsidiaries’ ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and enter into certain speculative hedging arrangements, and customary events of default.

5. Legal Proceedings

When the Company becomes aware of a claim or potential claim, the Company assesses the likelihood of any loss or exposure. The Company discloses information regarding each material claim where the likelihood of a loss contingency is probable or reasonably possible. If a loss contingency is probable and the amount of the loss can be reasonably estimated, the Company records an accrual for the loss. In such cases, there may be an exposure to potential loss in excess of the amount accrued. Where a loss is not probable but is reasonably possible or where a loss in excess of the amount accrued is reasonably possible, the Company discloses an estimate of the amount of the loss or range of possible losses for the claim if a reasonable estimate can be made, unless the amount of such reasonably possible losses is not material to the Company’s financial position, results of operations or cash flows.

Unless otherwise stated below, for each of the matters described below, the Company has either recorded an accrual for losses that are probable and reasonably estimable or has determined that, while a loss is reasonably possible (including potential losses in excess of the amounts accrued by the Company), a reasonable estimate of the amount of loss or range of possible losses with respect to the claim or in excess of amounts already accrued by the Company cannot be made. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management’s estimates.

Solely for purposes of this note, “WD” refers to Western Digital Corporation or one or more of its subsidiaries excluding HGST prior to the closing of the Company's acquisition of HGST on March 8, 2012 (the “HGST Closing Date”). HGST refers to Hitachi Global Storage Technologies Holdings Pte. Ltd. or one or more of its subsidiaries as of the HGST Closing Date, and “the Company” refers to Western Digital Corporation and all of its subsidiaries on a consolidated basis including HGST.

Intellectual Property Litigation

In June 2008, Convolve, Inc. (“Convolve”) filed a complaint in the Eastern District of Texas against WD, HGST, and two other companies alleging infringement of U.S. Patent Nos. 6,314,473 and 4,916,635. The complaint sought unspecified monetary damages and injunctive relief. In October 2008, Convolve amended its complaint to allege infringement of only the ‘473 patent. The ‘473 patent allegedly relates to interface technology to select between certain modes of a disk drive’s operations relating to speed and noise. In July 2011, a verdict was rendered against WD and HGST in an amount that is not material to the Company’s financial position, results of operations or cash flows, for which the Company previously recorded an accrual. In March 2015, WD and HGST filed Notices of Appeal with the United States District Court for the Federal Circuit (“Federal Circuit”). In April 2015, Convolve filed a motion for reconsideration of the final judgment, and in May 2015, the Federal Circuit deactivated the appeal pending the Court’s decision on reconsideration. WD and HGST intend to continue to defend themselves vigorously in this matter.

Seagate Matter

In October 2006, Seagate Technology LLC (“Seagate”) brought an action against the Company and a now former employee, alleging misappropriation of confidential information and trade secrets. In January 2012, an arbitrator issued a final award against the Company, including pre-award interest, of $630.4 million. The matter was appealed and, in October 2014, the Minnesota Supreme Court upheld the arbitrator’s award. In October 2014, the Company paid Seagate $773.4 million to satisfy the full amount of the final arbitration award plus interest accrued through October 2014. This amount was paid by one of the Company’s foreign subsidiaries using cash held outside of the United States.

Seagate disputes the method the Company used for calculating post-award interest and contends that the Company owes Seagate approximately $29 million in additional interest. The Company denies Seagate’s contention and believes it calculated interest properly in accordance with the arbitration award. In April 2015, the District Court declared that all amounts due and owing from the Company to Seagate have been paid, and a corresponding judgment was entered. In May 2015, Seagate appealed the decision and judgment to the Minnesota Court of Appeals, where the matter remains pending. The Company intends to continue to defend itself vigorously in this matter.

Other Matters

In December 2011, the German Central Organization for Private Copying Rights (Zentralstelle für private Überspielungsrechte), (“ZPÜ”), an organization consisting of several copyright collecting societies, instituted arbitration proceedings against Western Digital's German subsidiary (“WD Germany”) before the Copyright Arbitration Board (“CAB”) claiming copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce in Germany by WD Germany from January 2008 through December 2010. In February 2013, WD Germany filed a declaratory relief action against ZPÜ in the Higher Regional Court of Munich (the “Higher Court”), seeking an order from the court to determine the copyright levy issue. On May 21, 2013, ZPÜ filed a counter-claim against WD Germany with the Higher Court, seeking copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce from January 2008 through December 2010 based on tariffs published by ZPÜ on November 3, 2011. In January 2015, the Higher Court ruled in favor of ZPÜ. In its ruling, the Higher Court declared that WD Germany must pay certain levies on certain WD products which it sold in Germany between January 2008 and December 2010. The judgment specifies levy amounts on certain WD products sold from January 2008 through December 2010 and directs WD Germany to provide applicable sales data to the ZPÜ. The exact amount of the judgment has not been determined. ZPÜ and WD Germany filed appeals with the German Federal Court of Justice in February 2015. WD intends to defend itself vigorously in this matter.

In December 2014, ZPÜ submitted a pleading to the CAB seeking copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce in Germany by WD Germany between January 2012 and December 2013. WD intends to defend itself vigorously in this matter.

The Company has recorded an accrual for German copyright levies in an amount that is not material to the Company’s financial position, results of operations or cash flows. It is reasonably possible that the Company may incur losses totaling up to $101 million, including the amounts accrued.

In the normal course of business, the Company is subject to other legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of probable monetary liability or financial impact with respect to these other matters is subject to many uncertainties, management believes that any monetary liability or financial impact to the Company from these other matters, individually and in the aggregate, would not be material to the Company's financial condition, results of operations or cash flows. However, any monetary liability and financial impact to the Company from these other matters could differ materially from the Company's expectations.

6. Income Taxes

The Company's income tax provision for the three months ended October 2, 2015 was $31 million as compared to $37 million in the prior-year period. This decrease was primarily a result of lower income before income taxes. The differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia, the Philippines, Singapore and Thailand that expire at various dates from 2016 through 2025 and the current year generation of income tax credits.

In the three months ended October 2, 2015, the Company recorded a net increase of $10 million in its liability for unrecognized tax benefits. As of October 2, 2015, the Company's liability for unrecognized tax benefits was approximately $360 million. Interest and penalties recognized on such amounts were not material to the condensed consolidated financial statements during the three months ended October 2, 2015.

The Internal Revenue Service ("IRS") previously completed its field examination of the Company's federal income tax returns for fiscal years 2006 through 2009 and proposed certain adjustments. The Company has received Revenue Agent Reports ("RARs") from the IRS that seek to increase the Company's U.S. taxable income which would result in additional federal tax expense totaling approximately $795 million, subject to interest. The issues in dispute relate primarily to transfer pricing with the Company's foreign subsidiaries and intercompany payable balances. The Company disagrees with the proposed adjustments and in September 2015, filed a protest with the IRS Appeals Office. The Company believes that its tax positions are properly supported and will vigorously contest the position taken by the IRS. In September 2015, the IRS commenced an examination of the Company's fiscal years 2010 through 2012. During the three months ended October 2, 2015, the IRS completed the examination of the fiscal period ended September 5, 2007 of Komag, Incorporated, which the Company acquired on September 5, 2007, with no material adjustments.

The Company believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax examinations cannot be predicted with certainty. If any issues addressed in the Company's tax examinations are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. As of October 2, 2015, it is not possible to estimate the amount of change, if any, in the unrecognized tax benefits that is reasonably possible within the next twelve months. Any significant change in the amount of the Company's liability for unrecognized tax benefits would most likely result from additional information or settlements relating to the examination of the Company's tax returns.

7. Fair Value Measurements

Financial assets and liabilities that are remeasured and reported at fair value at each reporting period are classified and disclosed in one of the following three levels:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Inputs that are unobservable for the asset or liability and that are significant to the fair value of the assets or liabilities.

The following tables present information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of October 2, 2015 and July 3, 2015, respectively, and indicate the fair value hierarchy of the valuation techniques utilized to determine such values (in millions):

	Fair Value Measurements at October 2, 2015 Using			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$ 643	$ —	$ —	$ 643
Total cash equivalents	643	—	—	643
Short-term investments:				
U.S. Treasury securities	—	39	—	39
U.S. Government agency securities	—	1	—	1
Commercial paper	—	86	—	86
Certificates of deposit	—	221	—	221
Total short-term investments	—	347	—	347
Long-term investments:				
U.S. Treasury securities	—	241	—	241
U.S. Government agency securities	—	115	—	115
Total long-term investments	—	356	—	356
Foreign exchange contracts	—	1	—	1
Total assets at fair value	$ 643	$ 704	$ —	$ 1,347
Liabilities:				
Foreign exchange contracts	$ —	$ 62	$ —	$ 62
Total liabilities at fair value	$ —	$ 62	$ —	$ 62

	Fair Value Measurements at July 3, 2015 Using			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$ 135	$ —	$ —	$ 135
Total cash equivalents	135	—	—	135
Short-term investments:				
U.S. Treasury securities	—	50	—	50
U.S. Government agency securities	—	4	—	4
Commercial paper	—	109	—	109
Certificates of deposit	—	99	—	99
Total short-term investments	—	262	—	262
Long-term investments:				
U.S. Treasury securities	—	237	—	237
U.S. Government agency securities	—	91	—	91
Total long-term investments	—	328	—	328
Total assets at fair value	$ 135	$ 590	$ —	$ 725
Liabilities:				
Foreign exchange contracts	$ —	$ 31	$ —	$ 31
Total liabilities at fair value	$ —	$ 31	$ —	$ 31

Money Market Funds. The Company’s money market funds are funds that invest in U.S. Treasury and U.S. Government Agency securities. Money market funds are valued based on quoted market prices.

U.S. Treasury Securities. The Company's U.S. Treasury securities are direct obligations of the U.S. federal government and are held in custody by a third party. U.S. Treasury securities are valued using a market approach which is based on observable inputs including market interest rates from multiple pricing sources.

U.S. Government Agency Securities. The Company's U.S. Government agency securities are investments in fixed income securities sponsored by the U.S. Government and are held in custody by a third party. U.S. Government agency securities are valued using a market approach which is based on observable inputs including market interest rates from multiple pricing sources.

Commercial Paper. The Company's commercial paper securities are investments issued by corporations which are held in custody by a third party. Commercial paper securities are valued using a market approach which is based on observable inputs including market interest rates from multiple pricing sources.

Certificates of Deposit. The Company's certificates of deposit are investments which are held in custody by a third party. Certificates of deposit are valued using fixed interest rates.

Foreign Exchange Contracts. The Company's foreign exchange contracts are short-term contracts to hedge the Company's foreign currency risk. For contracts that have a right of offset by its individual counterparties under master netting arrangements, the Company presents its foreign exchange contracts on a net basis by counterparty in the consolidated balance sheets. Foreign exchange contracts are valued using an income approach that is based on a present value of future cash flows model. The market-based observable inputs for the model include forward rates and credit default swap rates. For more information on the Company's foreign exchange contracts, see Note 8 to these condensed consolidated financial statements.

In the three months ended October 2, 2015, there were no transfers between levels. The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximate fair value for all periods presented because of the short-term maturity of these assets and liabilities. The carrying amount of debt approximates fair value because of its variable interest rate.

8. Foreign Exchange Contracts

Although the majority of the Company's transactions are in U.S. dollars, some transactions are based in various foreign currencies. The Company purchases short-term, foreign exchange contracts to hedge the impact of foreign currency exchange fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. The purpose of entering into these hedging transactions is to minimize the impact of foreign currency fluctuations on the Company's results of operations. These contract maturity dates do not exceed 12 months. All foreign exchange contracts are for risk management purposes only. The Company does not purchase foreign exchange contracts for speculative or trading purposes. As of October 2, 2015, the Company had outstanding foreign exchange contracts with commercial banks for British Pound Sterling, Euro, Japanese Yen, Malaysian Ringgit, Philippine Peso, Singapore Dollar and Thai Baht, which were designated as either cash flow or fair value hedges.

If the derivative is designated as a cash flow hedge, the effective portion of the change in fair value of the derivative is initially deferred in other comprehensive income (loss), net of tax. These amounts are subsequently recognized into earnings when the underlying cash flow being hedged is recognized into earnings. Recognized gains and losses on foreign exchange contracts entered into for manufacturing-related activities are reported in cost of revenue and presented within cash flow from operations. Hedge effectiveness is measured by comparing the hedging instrument's cumulative change in fair value from inception to maturity to the underlying exposure's terminal value. The Company determined the ineffectiveness associated with its cash flow hedges to be immaterial to the condensed consolidated financial statements for the three months ended October 2, 2015 and October 3, 2014.

A change in the fair value of fair value hedges is recognized in earnings in the period incurred and is reported as a component of cost of revenue or operating expenses, depending on the nature of the underlying hedged item. All fair value hedges were determined to be effective as of October 2, 2015 and July 3, 2015. The changes in fair value on these contracts were immaterial to the condensed consolidated financial statements during the three months ended October 2, 2015 and October 3, 2014.

As of October 2, 2015, the net amount of unrealized losses with respect to the Company's foreign exchange contracts that is expected to be reclassified into earnings within the next 12 months was $50 million. In addition, as of October 2, 2015, the Company did not have any foreign exchange contracts with credit-risk-related contingent features. The Company opened $1.0 billion and closed $1.0 billion in foreign exchange contracts during each of the three months ended October 2, 2015 and October 3, 2014. The fair value and balance sheet location of the Company's foreign exchange contracts as of October 2, 2015 and July 3, 2015 were as follows (in millions):

Derivatives Designated as Hedging Instruments	Asset Derivatives				Liability Derivatives			
	October 2, 2015		July 3, 2015		October 2, 2015		July 3, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	$ 1	Other current assets	$ —	Accrued expenses	$ 62	Accrued expenses	$ 31

The following table presents the gross amounts of the Company's derivative instruments, amounts offset due to master netting arrangements with the Company's various counterparties, and the net amounts recognized in the condensed consolidated balance sheet as of October 2, 2015 (in millions):

Derivatives Designated as Hedging Instruments	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets (Liabilities) Presented in the Balance Sheet
Foreign exchange contracts			
Financial assets	$ 2	$ (1)	$ 1
Financial liabilities	(63)	1	(62)
Total derivative instruments	$ (61)	$ —	$ (61)

The Company had a gross and net liability of $31 million related to its derivative instruments outstanding at July 3, 2015. There were no amounts offset due to master netting arrangements in place at July 3, 2015.

The impact on the condensed consolidated financial statements was as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in Accumulated OCI on Derivatives		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified From Accumulated OCI into Income	
	Three Months Ended October 2, 2015	Three Months Ended October 3, 2014		Three Months Ended October 2, 2015	Three Months Ended October 3, 2014
Foreign exchange contracts	$ (53)	$ (22)	Cost of revenue	$ 28	$ (4)

The total net realized transaction and foreign exchange contract currency gains and losses were not material to the condensed consolidated financial statements during the three months ended October 2, 2015 and October 3, 2014.

9. Shareholders' Equity

Stock-Based Compensation Expense

The following table presents the Company's stock-based compensation and related tax benefit for the three months ended October 2, 2015 and October 3, 2014 (in millions):

	Three Months Ended October 2, 2015		Three Months Ended October 3, 2014	
	Expense	Tax Benefit	Expense	Tax Benefit
Options and ESPP	**$ 19**	**$ 4**	$ 19	$ 5
RSUs	**23**	**6**	20	5
Total	**$ 42**	**$ 10**	$ 39	$ 10

As of October 2, 2015, total compensation cost related to unvested stock options and ESPP rights issued to employees but not yet recognized was $118 million and will be amortized on a straight-line basis over a weighted average service period of approximately 2.5 years.

For purposes of this footnote, references to RSUs include performance stock unit awards. As of October 2, 2015, the aggregate unamortized fair value of all unvested RSUs was $181 million, which will be recognized on a straight-line basis over a weighted average vesting period of approximately 2.1 years.

Stock Option Activity

The following table summarizes stock option activity under the Company's stock option plans (in millions, except per share amounts and remaining contractual lives):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding at July 3, 2015	6.8	$ 50.00		
Granted	1.6	84.41		
Exercised	(0.5)	29.49		
Forfeited or expired	(0.1)	49.08		
Options outstanding at October 2, 2015	7.8	$ 58.58	4.7	$ 201
Exercisable at October 2, 2015	3.6	$ 41.37	3.4	$ 149
Vested and expected to vest after October 2, 2015	7.6	$ 57.89	4.7	$ 201

Options granted during the three months ended October 2, 2015 had a weighted average fair value per share of $23.09. As of October 2, 2015, the Company had options outstanding to purchase an aggregate of 4.9 million shares with an exercise price below the quoted price of the Company's stock on that date resulting in an aggregate intrinsic value of $201 million at that date. During the three months ended October 2, 2015, the aggregate intrinsic value of options exercised under the Company's stock option plans was $27 million, determined as of the date of exercise, as compared to $86 million in the prior-year period.

RSU Activity

The following table summarizes RSU activity under the Company's stock plans (in millions, except weighted average grant date fair value):

	Number of Shares	Weighted Average Grant-Date Fair Value
RSUs outstanding at July 3, 2015	3.0	$ 73.80
Granted	1.2	84.39
Vested	(1.5)	62.14
Forfeited	(0.1)	81.55
RSUs outstanding at October 2, 2015	2.6	84.43
Expected to vest after October 2, 2015	2.5	$ 84.24

The fair value of each RSU is the market price of the Company's stock on the date of grant. RSUs are generally payable in an equal number of shares of the Company's common stock at the time of vesting of the units. The fair value of the shares underlying the RSU awards at the date of grant or assumption was $99 million for awards granted in the three months ended October 2, 2015. These amounts are being recognized to expense over the corresponding vesting periods.

SARs Activity

During the three months ended October 2, 2015, the Company recognized a $1 million benefit related to adjustments to fair market value as well as the vesting of stock appreciation rights ("SARs"), as compared to $4 million of expense in the prior-year period. There was no tax expense or benefit realized as a result of the aforementioned SARs benefit during the three months ended October 2, 2015, as compared to $1 million during the three months ended October 3, 2014. The Company's SARs will be settled in cash upon exercise. The Company had a total liability of $40 million related to SARs included in accrued expenses in the condensed consolidated balance sheet as of October 2, 2015. As of October 2, 2015, all SARs issued to employees were fully vested, and the fair values are now solely subject to market price fluctuations. As of October 2, 2015, 0.6 million SARs were outstanding with a weighted average exercise price of $7.89. There were no SARs granted during the three months ended October 2, 2015.

Stock Repurchase Program

The Company's Board of Directors previously authorized $5.0 billion for the repurchase of the Company's common stock and approved the extension of its stock repurchase program to February 3, 2020. The Company repurchased 0.7 million for a total cost of $60 million during the three months ended October 2, 2015. The remaining amount available to be purchased under the

Company's stock repurchase program as of October 2, 2015 was $2.1 billion. Effective October 21, 2015, in connection with the Company's planned acquisition of SanDisk Corporation ("SanDisk"), the stock repurchase program has been suspended.

Dividends to Shareholders

On September 13, 2012, the Company announced that its Board of Directors had authorized the adoption of a quarterly cash dividend policy. Under the cash dividend policy, holders of the Company's common stock receive dividends when and as declared by the Company's Board of Directors. In the three months ended October 2, 2015, the Company declared a cash dividend of $0.50 per share to shareholders of record as of October 2, 2015, totaling $116 million, which was paid on October 15, 2015. Subsequent to October 2, 2015, on November 3, 2015, the Company declared a cash dividend of $0.50 per share of its common stock to shareholders of record as of January 1, 2016, which will be paid on January 15, 2016. The Company may modify, suspend or cancel its cash dividend policy in any manner and at any time.

Investment by Unisplendour Corporation Limited ("Unis")

On September 30, 2015, the Company announced that it had entered into an agreement with Unis and Unis Union Information System Ltd., a subsidiary of Unis ("Investor"), pursuant to which Investor will make a $3.8 billion equity investment in the Company (the "Unis Investment"). Under the terms of the agreement for the Unis Investment, Investor has agreed to purchase 40,814,802 shares of newly issued common stock of the Company at a price of $92.50 per share and has agreed to a five-year position standstill, voting restrictions, and a five-year lock-up on its shares, with a limited number becoming available for transfer each year. Following the closing of the investment, Unis will have the right to nominate one representative for election to the Company's Board of Directors, so long as Unis holds more than 10% of the issued and outstanding shares of the Company's common stock. The performance of Investor's obligations pursuant to the agreement, including payment of the purchase price for the shares, is guaranteed by Unis. The closing of the Unis Investment is subject to clearance by the U.S. Committee on Foreign Investment in the United States ("CFIUS"), the receipt of requisite regulatory approvals, including clearance by U.S. antitrust authorities and certain Chinese regulatory approvals, approval of the transaction by shareholders of Unis and other customary closing conditions.

10. Pensions and Other Post-retirement Benefit Plans

The Company's principal pension and other post-retirement benefit plans are in Japan. All pension and other post-retirement benefit plans outside of the Company's Japanese plans were immaterial to the Company's condensed consolidated financial statements for the three months ended October 2, 2015 and October 3, 2014. The expected long-term rate of return on the Japanese plan assets is 2.5%.

The following table presents the unfunded status of the benefit obligations and Japanese plan assets (in millions):

	October 2, 2015	July 3, 2015
Benefit obligation	**$ 239**	$ 231
Fair value of plan assets	**(193)**	(185)
Unfunded status	**$ 46**	$ 46

The following table presents the unfunded amounts as recognized on the Company's condensed consolidated balance sheets (in millions):

	October 2, 2015	July 3, 2015
Current liabilities	**$ 1**	$ 1
Non-current liabilities	**45**	45
Net amount recognized	**$ 46**	$ 46

The net periodic benefit cost of the Company's pension plans was not material to the condensed consolidated financial statements for the three months ended October 2, 2015 and October 3, 2014. The Company's expected employer contribution for its Japanese defined benefit pension plans is $10 million in fiscal 2016.

11. Acquisitions

The condensed consolidated financial statements include the results of operations of acquired companies commencing after their respective acquisition dates.

Acquisition of Amplidata

On March 9, 2015, the Company acquired Amplidata NV ("Amplidata"), a developer of object storage software for public and private cloud data centers. As a result of the acquisition, Amplidata was fully integrated and became a wholly owned indirect subsidiary of the Company. The purchase price of the acquisition was approximately $267 million, consisting of $245 million funded with available cash at the time of the acquisition, $19 million related to the fair value of a previously-held cost method investment and $3 million related to the fair value of stock options assumed. The acquisition furthers the Company's strategy to expand into higher value data storage platforms and systems that address the growth in storage requirements in cloud data centers.

The Company identified and recorded the assets acquired and liabilities assumed at their estimated fair values at the date of acquisition, and allocated the remaining value of $215 million to goodwill. The values assigned to the acquired assets and liabilities are based on preliminary estimates of fair value available as of the date of this Quarterly Report on Form 10-Q, and may be adjusted during the measurement period of up to 12 months from the date of the acquisition as further information becomes available with any changes in the fair values potentially resulting in adjustments to goodwill. The individual tangible and intangible assets acquired as well as the liabilities assumed in the acquisition were immaterial to the Company's condensed consolidated financial statements.

The preliminary purchase price allocation for Amplidata is as follows (in millions):

	March 9, 2015
Tangible assets acquired and liabilities assumed	$ (24)
Intangible assets	76
Goodwill	215
Total	$ 267

Since the date of acquisition, the Company recorded an increase of $42 million to goodwill which primarily related to an adjustment to the value of deferred taxes acquired, an adjustment to the value of intangible assets acquired, and an adjustment for the fair value of stock options assumed in the acquisition of Amplidata. The primary area of the preliminary purchase price allocation that is not yet finalized due to information that may become available subsequently is income taxes. Any changes in the fair value could potentially result in adjustments to goodwill.

The $215 million of goodwill recognized is primarily attributable to the benefits the Company expects to derive from an ability to create HDD storage solutions leveraging the core software acquired and is not expected to be deductible for tax purposes. The impact to revenue and net income attributable to Amplidata was immaterial to the Company's condensed consolidated financial statements for the three months ended October 2, 2015.

12. Employee Termination, Asset Impairment and Other Charges

The Company periodically incurs charges to realign its operations with anticipated market demand. The employee termination, asset impairment and other charges line item within the Company's condensed consolidated statements of income consisted of the following:

	Three Months Ended	
	October 2, 2015	October 3, 2014
Employee termination benefits	$ 38	$ 8
Impairment of assets	8	1
Contract termination and other	10	—
Total	$ 56	$ 9

Impairment charges during the three months ended October 2, 2015 primarily relate to equipment.

The following table provides those amounts recorded as liabilities within the Company's condensed consolidated balance sheets:

	July 3, 2015	Accruals	Payments	October 2, 2015
Employee termination benefits	$ 10	$ 38	$ (12)	$ 36

13. Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16”), which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers must recognize measurement-period adjustments during the period of resolution, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, which for the Company is the first quarter of fiscal 2017. Earlier adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company is currently evaluating the impact ASU 2015-16 will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The new standard requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015, which for the Company is the first quarter of fiscal 2017. The Company is currently evaluating the impact ASU 2015-03 will have on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which amends the guidance in former Accounting Standards Codification Topic 605, "Revenue Recognition," to provide a single, comprehensive revenue recognition model for all contracts with customers. The new standard requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The new standard also requires entities to enhance disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of this ASU by one year. The new standard allows for either a full retrospective or a modified retrospective transition method and is effective for fiscal years and interim periods within those years beginning after December 15, 2017, which for the Company is the first quarter of fiscal 2019, and early adoption is permitted beginning after December 15, 2016. The Company has not yet selected a transition method and is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements and related disclosures.

14. Subsequent Events

Joint Venture

On November 9, 2015, the Company announced an agreement to form a joint venture with Unis to market and sell the Company's current data center storage systems in China and to develop data storage systems for the Chinese market in the future. The joint venture will be 51% owned by Unis and its subsidiary, Unissoft (Wuxi) Group Co. Ltd., and 49% by the Company. The joint venture is expected to become operational by the fourth quarter of fiscal 2016, pending regulatory approvals.

Planned Acquisition of SanDisk

On October 21, 2015, the Company entered into an Agreement and Plan of Merger with SanDisk, a global leader in NAND flash storage solutions, pursuant to which a subsidiary of the Company will merge with and into SanDisk, with SanDisk surviving as a wholly owned subsidiary of the Company. The planned acquisition is primarily intended to deepen the Company's expertise in non-volatile memory and enable the Company to vertically integrate into NAND, securing long-term access to solid state technology at a lower cost.

The merger agreement values SanDisk’s outstanding common stock at a value of $86.50 per share, or a total equity value of approximately $18.9 billion, based on the volume weighted average price of the Company’s common stock for the five trading days ending on October 20, 2015. If the Unis Investment closes prior to the acquisition, the Company will pay $85.10 per share in cash and issue 0.0176 shares of its common stock per share of SanDisk’s common stock; and if the Unis Investment has not occurred or has been terminated, the Company will pay $67.50 per share in cash and issue 0.2387 shares of its common stock per share of SanDisk’s common stock. The above allocation between cash and shares of the Company’s common stock is subject to reallocation, at the Company’s election, if the amount of cash that SanDisk has available at the closing of the planned merger falls below certain thresholds.

The planned acquisition will be financed by a mix of cash, new debt financing and issuance of the Company’s common stock. In connection with the planned acquisition, the Company expects to enter into new debt facilities totaling $18.1 billion. The Company has received commitments for a $1 billion revolving credit facility, $3 billion in amortizing term loans, $6 billion in other

term loans and $8.1 billion in secured and unsecured bridge facilities. The Company expects to issue approximately $5.1 billion in secured and unsecured notes in lieu of drawing the bridge facilities at close, with the balance of the bridge facilities to be repaid with available cash. The proceeds from the new debt facilities are expected to be used to pay part of the purchase price, refinance existing debt of both the Company and SanDisk and pay transaction related fees and expenses.

Consummation of the merger is subject to customary closing conditions, including without limitation: (i) the required approval by SanDisk shareholders and, if the Unis Investment has not occurred or has been terminated, approval by the Company's shareholders; (ii) the expiration or early termination of the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory clearance under certain foreign antitrust laws, including the European Union and China; and (iii) if the Unis Investment has not been terminated and is a "covered transaction" for CFIUS purposes, or if CFIUS otherwise requests or requires a filing with respect to the merger, the approval of CFIUS. In certain circumstances, a termination fee may be payable by either the Company or SanDisk upon termination of the transaction as more fully described in the merger agreement.

Ministry of Commerce of the People's Republic of China ("MOFCOM") Decision

In connection with the regulatory approval process of the Hitachi Global Storage Technologies Holdings Pte. Ltd. ("HGST") acquisition, which closed on March 8, 2012, the Company agreed to certain conditions required by MOFCOM, including adopting measures to maintain HGST as an independent competitor until MOFCOM agreed otherwise. Accordingly, since March 2012, the Company has operated its global business through two independent subsidiaries — HGST and WD. In March 2014, the Company submitted an application to MOFCOM to lift the condition it imposed on the Company to operate these businesses separately. On October 19, 2015, MOFCOM issued a decision in response to the Company's application that permits the Company to integrate its HGST and WD subsidiaries, except that the Company committed to continue to maintain two sales teams that will separately offer products under the WD or HGST brands for two years from the date of the decision.

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

You should read this information in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Part II, Item 7, contained in our Annual Report on Form 10-K for the year ended July 3, 2015.

Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters. As used herein, the terms "we," "us," "our," and the "Company" refer to Western Digital Corporation and its subsidiaries.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "would," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast," and the like, or the use of future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning:

- *expectations concerning our planned acquisition of SanDisk Corporation ("SanDisk");*
- *expectations regarding the planned equity investment by Unisplendour Corporation Limited ("Unis");*
- *expectations regarding the integration of our HGST and WD subsidiaries following the decision by the Ministry of Commerce of the People's Republic of China ("MOFCOM") in October 2015;*
- *expectations regarding the growth of digital data and demand for digital storage;*
- *our plans to develop and invest in new products and expand into new storage markets and into emerging economic markets;*
- *expectations regarding the PC market and the emergence of new storage markets for our products;*
- *our quarterly cash dividend policy;*
- *expectations regarding the outcome of legal proceedings in which we are involved;*
- *expectations regarding the repatriation of funds from our foreign operations;*
- *our beliefs regarding tax benefits and the timing of future payments, if any, relating to the unrecognized tax benefits, and the adequacy of our tax provisions;*
- *our beliefs regarding the sufficiency of our available liquidity to meet our working capital, debt, dividend and capital expenditure needs; and*

- *expectations regarding our debt financing plans.*

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in Part I, Item 1A of this Quarterly Report on Form 10-Q, and any of those made in our other reports filed with the Securities and Exchange Commission (the "SEC"). You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We do not intend, and undertake no obligation, to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Our Company

We are a leading developer, manufacturer and provider of data storage solutions that enable consumers, businesses, governments and other organizations to create, manage, experience and preserve digital content. Our product portfolio includes hard disk drives (“HDDs”), solid state drives ("SSDs"), direct attached storage solutions, personal cloud network attached storage solutions, and public and private cloud data center storage solutions. HDDs are our principal products and are today’s primary storage medium for the vast majority of digital content, with the use of solid-state storage products growing rapidly. Our products are marketed under the HGST and WD brand names.

In accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), operating results for Amplidata NV ("Amplidata"), which we acquired on March 9, 2015, are included in our operating results only after the date of acquisition.

Our fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Approximately every six years, we report a 53-week fiscal year to align our fiscal year with the foregoing policy. Our fiscal first quarters ended October 2, 2015 and October 3, 2014 consisted of 13 and 14 weeks, respectively. Fiscal 2015 was comprised of 53 weeks and ended on July 3, 2015. Fiscal year 2016 will be comprised of 52 weeks and will end on July 1, 2016.

Recent Developments

Joint Venture

On November 9, 2015, we announced an agreement to form a joint venture with Unis to market and sell our current data center storage systems in China and to develop data storage systems for the Chinese market in the future. The joint venture will be 51% owned by Unis and its subsidiary, Unissoft (Wuxi) Group Co. Ltd., and 49% by us. The joint venture is expected to become operational by the fourth quarter of fiscal 2016, pending regulatory approvals.

Planned Acquisition of SanDisk

On October 21, 2015, we entered into an Agreement and Plan of Merger with SanDisk, a global leader in NAND flash storage solutions, pursuant to which a subsidiary of our company will merge with and into SanDisk, with SanDisk surviving as a wholly owned subsidiary of our company. The planned acquisition is primarily intended to deepen our expertise in non-volatile memory and enable us to vertically integrate into NAND, securing long-term access to solid state technology at a lower cost.

The merger agreement values SanDisk's outstanding common stock at a value of $86.50 per share, or a total equity value of approximately $18.9 billion, based on the volume weighted average price of our common stock for the five trading days ending on October 20, 2015. If the Unis Investment (see "Investment by Unis" below) closes prior to the acquisition, we will pay $85.10 per share in cash and issue 0.0176 shares of our common stock per share of SanDisk’s common stock; and if the Unis Investment has not occurred or has been terminated, we will pay $67.50 per share in cash and issue 0.2387 shares of our common stock per share of SanDisk’s common stock. The above allocation between cash and shares of our common stock is subject to reallocation, at our election, if the amount of cash that SanDisk has available at the closing of the planned merger falls below certain thresholds.

The planned acquisition will be financed by a mix of cash, new debt financing and issuance of our common stock. In connection with the planned acquisition, we expect to enter into new debt facilities totaling $18.1 billion. The proceeds from the new debt facilities are expected to be used to pay part of the purchase price, refinance existing debt of both our company and SanDisk and pay transaction related fees and expenses.

Consummation of the merger is subject to customary closing conditions, including without limitation: (i) the required approval by SanDisk shareholders and, if the Unis Investment has not occurred or has been terminated, approval by our

shareholders; (ii) the expiration or early termination of the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory clearance under certain foreign antitrust laws, including the European Union and China; and (iii) if the Unis Investment has not been terminated and is a “covered transaction” for U.S. Committee on Foreign Investment in the United States ("CFIUS") purposes, or if CFIUS otherwise requests or requires a filing with respect to the merger, the approval of CFIUS. In certain circumstances, a termination fee may be payable by either us or SanDisk upon termination of the transaction as more fully described in the merger agreement. The acquisition is expected to close in the first quarter of fiscal 2017.

MOFCOM Decision

In connection with the regulatory approval process of the Hitachi Global Storage Technologies Holdings Pte. Ltd. ("HGST") acquisition, which closed on March 8, 2012, we agreed to certain conditions required by MOFCOM, including adopting measures to maintain HGST as an independent competitor until MOFCOM agreed otherwise. Accordingly, since March 2012, we have operated our global business through two independent subsidiaries — HGST and WD. In March 2014, we submitted an application to MOFCOM to lift the condition it imposed on us to operate these businesses separately. On October 19, 2015, MOFCOM issued a decision in response to our application that permits us to integrate our HGST and WD subsidiaries, except that we committed to maintain two sales teams that will separately offer products under the WD or HGST brands for two years from the date of the decision. We began integration planning activities immediately following the MOFCOM decision and integration is expected to occur in phases through October 2017.

Investment by Unis

On September 30, 2015, we announced that we had entered into an agreement with Unis and Unis Union Information System Ltd., a subsidiary of Unis ("Investor"), pursuant to which Investor will make a $3.8 billion equity investment in our company (the "Unis Investment"). Under the terms of the agreement for the Unis Investment, Investor has agreed to purchase 40,814,802 shares of newly issued common stock at a price of $92.50 per share and has agreed to a five-year position standstill, voting restrictions, and a five-year lock-up on its shares, with a limited number becoming available for transfer each year. Following the closing of the investment, Unis will have the right to nominate one representative for election to our Board of Directors, so long as Unis holds more than 10% of the issued and outstanding shares of our common stock. The performance of Investor’s obligations pursuant to the agreement, including payment of the purchase price for the shares, is guaranteed by Unis. The closing of the Unis Investment is subject to clearance by CFIUS, the receipt of requisite regulatory approvals, including clearance by U.S. antitrust authorities and certain Chinese regulatory approvals, approval of the transaction by shareholders of Unis and other customary closing conditions. The investment is expected to close in the second or third quarter of fiscal 2016.

First Quarter Overview

For the quarter ended October 2, 2015, we believe that overall HDD industry shipments totaled approximately 119 million units, down 19% from the prior-year period and up 7% from the quarter ended July 3, 2015.

The following table sets forth, for the periods presented, selected summary information from our condensed consolidated statements of income by dollars (in millions) and percentage of net revenue:

	Three Months Ended					
	October 2, 2015			October 3, 2014		
Net revenue	**$**	**3,360**	**100.0%**	$	3,943	100.0%
Gross profit		**955**	**28.4**		1,149	29.1
Total operating expenses		**633**	**18.8**		680	17.2
Operating income		**322**	**9.6**		469	11.9
Net income		**283**	**8.4**		423	10.7

The following is a summary of our financial performance for the first quarter of fiscal 2016:

- Consolidated net revenue totaled $3.4 billion.
- Net revenue derived from enterprise SSDs was $233 million as compared to $156 million in the prior-year period.
- HDD shipments decreased 20% from the prior-year period to 51.7 million units.
- Gross margin decreased to 28.4% as compared to 29.1% in the prior-year period.

- Operating income decreased to $322 million as compared to $469 million in the prior-year period.
- We generated $545 million in cash flow from operations and ended the quarter with $5.1 billion in cash and cash equivalents.

Results of Operations

Net Revenue

(in millions, except percentages and average selling price)	Three Months Ended October 2, 2015	Three Months Ended October 3, 2014	Percentage Change
Net revenue	**$ 3,360**	$ 3,943	(15)%
Average selling price (per unit)*	**$ 60**	$ 58	3 %
Revenues by Geography (%)			
Americas	**30%**	27%	
Europe, Middle East and Africa	**21**	21	
Asia	**49**	52	
Revenues by Channel (%)			
OEM	**67%**	63%	
Distributors	**21**	24	
Retailers	**12**	13	
Unit Shipments*			
PC	**27.5**	39.7	
Non-PC	**24.2**	25.0	
Total units shipped	**51.7**	64.7	(20)%

* Based on sales of HDD units only.

For the quarter ended October 2, 2015, net revenue was $3.4 billion, a decrease of 15% from the prior-year period. This decrease in revenue was primarily the result of a softer demand environment largely driven by a decline in PC markets, partially offset by an increase in the average selling price ("ASP") for HDDs due to changes in product mix. Total hard drive shipments decreased to 51.7 million units for the quarter ended October 2, 2015 as compared to 64.7 million units in the prior-year period. For the quarter ended October 2, 2015, the ASP for HDDs increased to $60 compared to the prior-year period ASP for HDDs of $58.

Changes in net revenue by geography and channel generally reflect normal fluctuations in market demand and competitive dynamics. For the three months ended October 2, 2015 and October 3, 2014, Hewlett-Packard Company accounted for approximately 13% and 11% of our net revenue, respectively.

Consistent with standard industry practice, we have sales incentive and marketing programs that provide customers with price protection and other incentives or reimbursements that are recorded as a reduction to gross revenue. Generally, total sales incentive and marketing programs range from 7% to 11% of gross revenues per quarter. For the three months ended October 2, 2015, these programs represented 11% of gross revenues, as compared to 9% in the prior-year period. These amounts generally vary according to several factors, including industry conditions, seasonal demand, competitor actions, channel mix and overall availability of product. Changes in future customer demand and market conditions may require us to adjust our incentive programs as a percentage of gross revenue from the current range. Adjustments to revenues due to changes in accruals for these programs related to revenues reported in prior periods have averaged 0.6% of quarterly gross revenue since the first quarter of fiscal 2014.

Gross Margin

(in millions, except percentages)	Three Months Ended October 2, 2015	Three Months Ended October 3, 2014	Percentage Change
Net revenue	**$ 3,360**	$ 3,943	(15)%
Gross profit	**955**	1,149	(17)%
Gross margin	**28.4%**	29.1%	

For the three months ended October 2, 2015, gross margin decreased to 28.4%, as compared to 29.1% for the prior-year period. This decrease in gross margin was primarily the result of a change in product mix.

Operating Expenses

(in millions, except percentages)	Three Months Ended October 2, 2015	Three Months Ended October 3, 2014	Percentage Change
R&D expense	**$ 385**	$ 437	(12)%
SG&A expense	**192**	220	(13)%
Charges related to arbitration award	**—**	14	(100)%
Employee termination, asset impairment and other charges	**56**	9	522 %
Total operating expenses	**$ 633**	$ 680	

Research and development (“R&D”) expense was $385 million for the three months ended October 2, 2015, a decrease of $52 million from the prior-year period. This decrease was primarily the result of an additional week of operating expenses during the first fiscal quarter of the prior-year period and lower incentive compensation in the three months ended October 2, 2015 as compared to the prior-year period. As a percentage of net revenue, R&D expense was 11.5% in the three months ended October 2, 2015, as compared to 11.1% in the prior-year period.

Selling, general and administrative (“SG&A”) expense was $192 million for the three months ended October 2, 2015, a decrease of $28 million from the prior-year period. This decrease was primarily the result of an additional week of operating expenses during the first fiscal quarter of the prior-year period and lower incentive compensation in the three months ended October 2, 2015 as compared to the prior-year period. SG&A expense as a percentage of net revenue was 5.7% in the three months ended October 2, 2015, as compared to 5.6% in the prior-year period.

During the three months ended October 3, 2014, we recorded $14 million of interest charges related to an arbitration award for claims brought against us and a now former employee of ours by Seagate Technology LLC. In October 2014, we paid Seagate $773.4 million to satisfy the full amount of the final arbitration award plus interest accrued through October 2014. For additional information, refer to Part I, Item 1, Note 5 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

During the three months ended October 2, 2015, we recorded employee termination, asset impairment and other charges of $56 million in order to realign our operations with anticipated market demand, as compared to $9 million in the prior-year period. For additional information, refer to Part I, Item 1, Note 12 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Other Income (Expense)

Other expense, net for the three months ended October 2, 2015 was $8 million, as compared to $9 million in the prior-year period. This decrease was a result of a slight increase in interest and other income due to a higher average daily invested cash balance, as compared to the prior-year period. Interest and other expense remained flat compared to the prior-year period.

Income Tax Provision

Our income tax provision for the three months ended October 2, 2015 was $31 million, as compared to $37 million in the prior-year period. This decrease was primarily a result of lower income before income taxes. The differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia, the Philippines, Singapore and Thailand that expire at various dates from 2016 through 2025 and the current year generation of income tax credits. For additional

information, refer to Part I, Item 1, Note 6 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

We ended the first quarter of fiscal 2016 with total cash and cash equivalents of $5.1 billion. The following table summarizes our statements of cash flows (in millions):

	Three Months Ended	
	October 2, 2015	**October 3, 2014**
Net cash flow provided by (used in):		
Operating activities	**$ 545**	$ 827
Investing activities	**(273)**	(126)
Financing activities	**(215)**	(346)
Net increase in cash and cash equivalents	**$ 57**	$ 355

Our investment policy is to manage our investment portfolio to preserve principal and liquidity while maximizing return through the full investment of available funds. We believe our current cash, cash equivalents and cash generated from operations as well as our available credit facilities will be sufficient to meet our working capital, debt, dividend, and capital expenditure needs for at least the next twelve months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A of this Quarterly Report on Form 10-Q.

As discussed above under Recent Developments, in connection with our planned acquisition of SanDisk, we expect to enter into new debt facilities totaling $18.1 billion. We have received commitments for a $1.0 billion revolving credit facility, $3.0 billion in amortizing term loans, $6.0 billion in other term loans and $8.1 billion in secured and unsecured bridge facilities. We expect to issue approximately $5.1 billion in secured and unsecured notes in lieu of drawing the bridge facilities at close, with the balance of the bridge facilities to be repaid with available cash. The proceeds from the new debt facilities are expected to be used to pay a portion of the purchase price for our planned acquisition of SanDisk, refinance existing debt of both our company and SanDisk and pay transaction related fees and expenses. Also as discussed above under Recent Developments, on September 29, 2015, we entered into an agreement with Unis under which a subsidiary of Unis will make a $3.8 billion equity investment in our company, which we expect will close in the second or third quarter of fiscal 2016.

A total of $4.5 billion and $4.3 billion of our cash and cash equivalents was held outside of the United States as of October 2, 2015 and July 3, 2015, respectively. Substantially all of the amounts held outside of the United States are intended to be indefinitely reinvested in foreign operations. Our current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations or dividends to our shareholders pursuant to our quarterly cash dividend policy. In the event funds from foreign operations are needed in the United States, any repatriation could result in the accrual and payment of additional U.S. income tax.

Operating Activities

Net cash provided by operating activities was $545 million during the three months ended October 2, 2015 as compared to $827 million provided by operating activities in the prior-year period. Cash flow from operating activities consists of net income, adjusted for non-cash charges, plus or minus working capital changes. This represents our principal source of cash. The decline in cash provided by operating activities compared to the prior-year period was primarily attributable to the lower net income in the current period. Net cash used by working capital changes was $27 million for the three months ended October 2, 2015 as compared to $61 million provided by working capital changes in the prior-year period.

Our working capital requirements primarily depend on the effective management of our cash conversion cycle, which measures how quickly we can convert our products into cash through sales. The cash conversion cycles were as follows:

	Three Months Ended	
	October 2, 2015	October 3, 2014
Days sales outstanding	**44**	48
Days in inventory	**48**	45
Days payables outstanding	**(68)**	(71)
Cash conversion cycle	**24**	22

For the three months ended October 2, 2015, our days sales outstanding ("DSOs") decreased by 4 days, days in inventory ("DIOs") increased by 3 days, and days payable outstanding ("DPOs") decreased by 3 days compared to the prior year period. Changes in DSOs are generally due to both the linearity of shipments and the sale of trade receivables in connection with our factoring agreement. Changes in DIOs are generally related to the timing of inventory builds. Changes in DPOs are generally related to production volume and the timing of purchases during the period. From time to time, we modify the timing of payments to our vendors. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances. Generally, we make the payment term modifications through negotiations with our vendors or by granting to, or receiving from, our vendors' payment term accommodations.

Investing Activities

Net cash used in investing activities for the three months ended October 2, 2015 was $273 million as compared to $126 million used in investing activities in the prior-year period. Net cash used in investing activities for the three months ended October 2, 2015 consisted of $236 million related to the purchase of investments, $151 million of capital expenditures and a net $10 million of other investing activities, partially offset by $124 million of proceeds from sales and maturities of investments. Net cash used in investing activities for the three months ended October 3, 2014 consisted of $160 million of capital expenditures, $120 million related to the purchase of investments and a net $12 million of other investing activities, offset by $166 million of proceeds from sales and maturities of investments.

Financing Activities

Net cash used in financing activities for the three months ended October 2, 2015 was $215 million as compared to $346 million used in financing activities in the prior-year period. Net cash used in financing activities for the three months ended October 2, 2015 consisted of $115 million used to pay dividends on our common stock, $60 million used to repurchase shares of our common stock, $31 million used to make principal payments on the term loan facility and a net $9 million used by employee stock plans. Net cash used in financing activities for the three months ended October 3, 2014 consisted of $223 million used to repurchase shares of our common stock, $31 million used to make principal payments on the term loan and $94 million used to pay dividends on our common stock, offset by a net $2 million provided by employee stock plans.

Off-Balance Sheet Arrangements

Other than facility lease commitments incurred in the normal course of business and certain indemnification provisions (see "Contractual Obligations and Commitments" below), we do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not included in our condensed consolidated financial statements. Additionally, we do not have an interest in, or relationships with, any special-purpose entities.

Contractual Obligations and Commitments

Debt — As of October 2, 2015, we had $255 million outstanding on our revolving credit facility and $2.3 billion outstanding on our term loan facility. We are required to make quarterly principal payments on the term loan facility totaling $125 million for the remainder of fiscal 2016, $219 million in fiscal 2017, $250 million in fiscal 2018 and the remaining balance of $1.7 billion in fiscal 2019. As of October 2, 2015, under our credit agreement, we were in compliance with all covenants. In connection with our planned acquisition of SanDisk, we expect to enter into debt facilities totaling $18.1 billion, including a $1.0 billion revolving credit facility. The proceeds from the debt facilities are expected to be used to pay a portion of the purchase price for our planned acquisition of SanDisk, refinance existing debt of both our company and SanDisk and pay transaction-related fees and expenses. For additional information on our outstanding debt, refer to Part I, Item 1, Note 4 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Purchase Orders — In the normal course of business, we enter into purchase orders with suppliers for the purchase of components used to manufacture our products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, are recorded as a liability upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. We also enter into purchase orders with suppliers for capital equipment that are recorded as a liability upon receipt of the equipment. Our ability to change or cancel a capital equipment purchase order without penalty depends on the nature of the equipment being ordered. In some cases, we may be obligated to pay for certain costs related to changes to, or cancellation of, a purchase order, such as costs incurred for raw materials or work in process of components or capital equipment.

We have entered into long-term purchase agreements with various component suppliers, containing minimum quantity requirements. However, the dollar amount of the purchases may depend on the specific products ordered, achievement of pre-defined quantity or quality specifications or future price negotiations. We have also entered into long-term purchase agreements with various component suppliers that carry fixed volumes and pricing which obligate us to make certain future purchases, contingent on certain conditions of performance, quality and technology of the vendor’s components.

We enter into, from time to time, other long-term purchase agreements for components with certain vendors. Generally, future purchases under these agreements are not fixed and determinable as they depend on our overall unit volume requirements and are contingent upon the prices, technology and quality of the supplier’s products remaining competitive.

Refer to Part II, Item 7 of our Annual Report on Form 10-K for the year ended July 3, 2015, for further discussion of our purchase orders and purchase agreements and the associated dollar amounts. See Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of the risks associated with these commitments.

Foreign Exchange Contracts — We purchase short-term, foreign exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. See Part I, Item 3, of this Quarterly Report on Form 10-Q under the heading “Disclosure About Foreign Currency Risk,” for a description of our current foreign exchange contract commitments and Part I, Item 1, Note 8 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Indemnifications — In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, products or services to be provided by us, or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers in certain circumstances.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements.

Unrecognized Tax Benefits — As of October 2, 2015, the amount of unrecognized tax benefits was $360 million, of which $299 million could result in potential cash payments. We are not able to provide a reasonable estimate of the timing of future tax payments related to these obligations. See Part I, Item 1, Note 6 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding our total tax liability for unrecognized tax benefits.

Stock Repurchase Program — Our Board of Directors previously authorized a stock repurchase program. Effective October 21, 2015, in connection with our planned acquisition of SanDisk, we suspended this stock repurchase program. For additional information, refer to Part II, Item 2, Issuer Purchases of Equity Securities in this Quarterly Report on Form 10-Q.

Cash Dividend Policy — During the three months ended October 2, 2015, we declared a cash dividend of $0.50 per share of our common stock to shareholders of record as of October 2, 2015, totaling $116 million, which we paid on October 15, 2015. Subsequent to October 2, 2015, on November 3, 2015, we declared a cash dividend of $0.50 per share of our common stock to shareholders of record as of January 1, 2016, which will be paid on January 15, 2016. We may modify, suspend or cancel our cash dividend policy in any manner and at any time. For additional information, refer to Part I, Item 1, Note 9 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

We have prepared the unaudited condensed consolidated financial statements in accordance with U.S. GAAP. The preparation of the financial statements requires the use of judgments and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and shareholders' equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material. There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended July 3, 2015. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 3, 2015 for a discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

For a description of recently issued and adopted accounting pronouncements, including the respective dates of adoption and expected effects on our results of operations and financial condition, refer to Part I, Item 1, Note 13 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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

Disclosure About Foreign Currency Risk

Although the majority of our transactions are in U.S. dollars, some transactions are based in various foreign currencies. We purchase short-term, foreign exchange contracts to hedge the impact of foreign currency exchange fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on our results of operations. The contract maturity dates do not exceed 12 months. We do not purchase foreign exchange contracts for speculative or trading purposes. For additional information, refer to Part I, Item 1, Note 8 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As of October 2, 2015, we had outstanding the following purchased foreign exchange contracts (in millions, except weighted average contract rate):

	Contract Amount	Weighted Average Contract Rate*	Unrealized Gains (Losses)
Foreign exchange contracts:			
Cash flow hedges:			
Japanese Yen	$ 154	$ 120.50	$ 1
Malaysian Ringgit	$ 146	$ 3.84	$ (16)
Philippine Peso	$ 51	$ 45.92	$ (1)
Singapore Dollar	$ 42	$ 1.38	$ (1)
Thai Baht	$ 654	$ 34.59	$ (33)
Fair value hedges:			
British Pound Sterling	$ (6)	$ 0.66	$ —
Euro	$ (16)	$ 0.90	$ —
Japanese Yen	$ 76	$ 119.72	$ —
Philippine Peso	$ 32	$ 46.73	$ —
Singapore Dollar	$ 12	$ 1.39	$ —
Thai Baht	$ 52	$ 36.49	$ —

* Expressed in units of foreign currency per U.S. dollar.

During the three months ended October 2, 2015, total net realized transaction and foreign exchange contract currency gains and losses were not material to the condensed consolidated financial statements.

Disclosure About Other Market Risks

Variable Interest Rate Risk

Borrowings under our credit agreement bear interest at a rate equal to, at our option, either (a) a customary London interbank offered rate (a "Eurodollar Rate") or (b) a customary base rate (a "Base Rate"), in each case plus an applicable margin. The applicable margins range from 1.25% to 2.00% with respect to Eurodollar Rate borrowings and 0.25% to 1.00% with respect to Base Rate borrowings. We are also required to pay a commitment fee for the unused portion of the revolving credit facility, which ranges from 0.175% to 0.300% per annum. The applicable margins for borrowings and the commitment fee ranges are determined based upon a leverage ratio of us and our subsidiaries calculated on a consolidated basis. A one percent increase in the variable rate of interest on the term loan and revolving credit facility would increase interest expense by approximately $25 million annually. For additional information on our credit agreement, see Part I, Item 1, Note 4 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Item 4. ***CONTROLS AND PROCEDURES***

As required by SEC Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting during the first fiscal quarter ended October 2, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

For a description of our legal proceedings, refer to Part I, Item 1, Note 5 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated by reference in response to this item.

Item 1A. *RISK FACTORS*

The business, financial condition and operating results of our company can be affected by a number of risks and uncertainties, whether currently known or unknown, any one or more of which could, directly or indirectly, cause our company's actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. The risks and uncertainties discussed below are not the only ones facing our business, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition, results of operations or the market price of our common stock.

The risks and uncertainties discussed below update and supersede the risks and uncertainties previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 3, 2015. Other than the addition of the risk factors below under the section titled "Risks Related to Our Planned Acquisition of SanDisk, the Planned Investment by Unis and Integration of Our HGST Acquisition," we do not believe any of the changes constitute material changes to the risk factors previously disclosed in such prior Annual Report on Form 10-K.

Risks Related to Our Planned Acquisition of SanDisk, the Planned Investment by Unis and Integration of Our HGST Acquisition

The failure to complete our planned acquisition of SanDisk, in a timely manner or at all, may adversely affect our business and our stock price.

Our and SanDisk's obligations to consummate our planned acquisition of SanDisk are subject to the satisfaction or waiver of certain customary conditions, including, among others, (i) the approval of the merger agreement by the shareholders of SanDisk and, if the planned Unis Investment has not closed or has been terminated, approval by our shareholders; (ii) the expiration or early termination of the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory clearance under certain foreign antitrust laws, including the European Union and China; (iii) the absence of (A) any order prohibiting the merger or (B) the enactment of any law that makes consummation of the merger illegal; (iv) subject to certain exceptions, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the merger agreement; (v) if the planned Unis Investment has not been terminated and is a "covered transaction" for CFIUS purposes, or if CFIUS otherwise requests or requires a filing with respect to the planned merger with SanDisk, the approval of CFIUS; and (vi) the absence of any material adverse effect on SanDisk or our company since the date of the merger agreement that is continuing. We cannot provide assurance that the conditions to the completion of the planned acquisition of SanDisk will be satisfied in a timely manner or at all. In addition, other factors, such as our ability to obtain the debt financing we need to consummate the planned acquisition of SanDisk, may affect when and whether the merger will occur. If our planned acquisition of SanDisk is not completed, our share price could fall to the extent that our current price reflects an assumption that we will complete the planned acquisition. Furthermore, if the planned acquisition of SanDisk is not completed and the merger agreement is terminated, we may suffer other consequences that could adversely affect our business, results of operations and share price, including the following:

- we could be required to pay a termination fee to SanDisk of approximately: (A) $1.06 billion if the acquisition is not consummated by October 21, 2016 or, if extended pursuant to the terms of the merger agreement, January 21, 2017, or is enjoined or otherwise prohibited, in each case due to the failure to obtain certain required U.S. or foreign antitrust clearances; (B) $184 million if the planned Unis Investment has not closed or has been terminated and our company's shareholders fail to approve the issuance of shares of its common stock pursuant to the merger; and (C) $553 million if the merger agreement is terminated under certain other specified circumstances described in the merger agreement;

- we have incurred and will continue to incur costs relating to the planned acquisition (including significant legal and financial advisory fees) and many of these costs are payable by us whether or not the planned acquisition is completed;

- matters relating to the planned acquisition (including integration planning) may require substantial commitments of time and resources by our management team, which could otherwise have been devoted to other opportunities that may have been beneficial to us;
- we may be subject to legal proceedings related to the acquisition or the failure to complete the acquisition;
- the failure to consummate the acquisition may result in negative publicity and a negative impression of us in the investment community; and
- any disruptions to our business resulting from the announcement and pendency of the acquisition, including any adverse changes in our relationships with our customers, suppliers, joint development partners and employees, may continue or intensify in the event the merger is not consummated.

Uncertainty about our planned acquisition of SanDisk may adversely affect our business and stock price, whether or not the planned acquisition is completed.

We are subject to risks in connection with the announcement and pendency of our planned acquisition of SanDisk, including the pendency and outcome of any legal proceedings against us, our directors and others relating to the planned acquisition and the risks from possibly foregoing opportunities we might otherwise pursue absent the planned acquisition of SanDisk. Furthermore, uncertainties about the planned acquisition may cause our current and prospective employees to experience uncertainty about their future with us. These uncertainties may impair our ability to retain, recruit or motivate key management, sales, marketing, engineering, technical and other personnel.

In addition, in response to the announcement of our planned acquisition of SanDisk, our existing or prospective customers, suppliers or joint development partners may:

- delay, defer or cease purchasing goods or services from or providing goods or services to us;
- delay or defer other decisions concerning us, or refuse to extend credit to us;
- cease further joint development activities; or
- otherwise seek to change the terms on which they do business with us.

While we are attempting to address these risks through communications with our existing and prospective customers, suppliers or joint development partners, they may be reluctant to purchase our products, supply us with goods and service or continue joint development due to the potential uncertainty about the direction of our product offerings and the support and service of our products after we complete the planned acquisition of SanDisk.

We may fail to realize the benefits expected from our planned acquisition of SanDisk, which could adversely affect our stock price.

Our planned acquisition of SanDisk, if completed, will be our largest acquisition to date. The anticipated benefits we expect from the planned acquisition are, necessarily, based on projections and assumptions about the combined businesses of our company and SanDisk, which may not materialize as expected or which may prove to be inaccurate. The value of our common stock following the completion of the planned acquisition could be adversely affected if we are unable to realize the anticipated benefits from the acquisition on a timely basis or at all. Achieving the benefits of the planned acquisition of SanDisk will depend, in part, on our ability to integrate the business and operations of SanDisk successfully and efficiently with our business. The challenges involved in this integration, which will be complex and time-consuming, include the following:

- difficulties entering new markets or manufacturing in new geographies where we have no or limited direct prior experience;
- successfully managing relationships with our combined supplier and customer base;
- coordinating and integrating independent research and development and engineering teams across technologies and product platforms to enhance product development while reducing costs;

- consolidating and integrating corporate, information technology, finance and administrative infrastructures and integrating and harmonizing business systems;
- coordinating sales and marketing efforts to effectively position our capabilities and the direction of product development;
- limitations prior to the completion of the acquisition on the ability of management of our company and of SanDisk to conduct planning regarding the integration of the two companies;
- the increased scale and complexity of our operations resulting from the acquisition;
- retaining key employees of our company and SanDisk;
- obligations that we will have to counterparties of SanDisk that arise as a result of the change in control of SanDisk; and
- minimizing the diversion of management attention from other important business objectives.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business of the size and complexity of SanDisk, then we may not achieve the anticipated benefits of the acquisition of SanDisk and our revenue, expenses, operating results and financial condition could be materially adversely affected.

The acquisition of SanDisk may result in significant charges or other liabilities that could adversely affect the financial results of the combined company.

The financial results of the combined company may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with our integration of the business and operations of SanDisk. The amount and timing of these possible charges are not yet known. Further, our failure to identify or accurately assess the magnitude of certain liabilities we are assuming in the acquisition could result in unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition. The price of our common stock following the acquisition could decline to the extent the combined company's financial results are materially affected by any of these events.

The regulatory approvals required in connection with our planned acquisition of SanDisk may not be obtained or may contain materially burdensome conditions.

Completion of our planned acquisition of SanDisk is conditioned upon the receipt of certain regulatory approvals, and we cannot provide assurance that these approvals will be obtained. If any conditions or changes to the proposed structure of the acquisition are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the planned acquisition or reducing the anticipated benefits of the planned acquisition. If we agree to any material conditions in order to obtain any approvals required to complete the planned acquisition, the business and results of operations of the combined company may be adversely affected.

The use of cash and incurrence of substantial indebtedness in connection with the financing of our planned SanDisk acquisition may have an adverse impact on our liquidity, limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions.

Our planned acquisition of SanDisk will be financed in part by the use of our cash on hand and the incurrence of a significant amount of indebtedness. As of October 2, 2015, we had approximately $5.1 billion of cash and cash equivalents, approximately $350 million of short-term investments, approximately $356 million of long-term investments and approximately $2.5 billion of total debt outstanding. In connection with the planned acquisition, we expect to enter into new debt facilities totaling $18.1 billion. The proceeds from the new debt facilities are expected to be used to pay part of the purchase price, refinance existing debt of both our company and SanDisk and pay transaction related fees and expenses. The use of cash on hand and indebtedness to finance the acquisition will reduce our liquidity and could cause us to place more reliance on cash generated from operations to pay principal and interest on our debt, thereby reducing the availability of our cash flow for working capital, dividend and capital expenditure needs or to pursue other potential strategic plans. We expect that the agreements we will enter into with respect to the indebtedness we will incur to finance the planned acquisition will contain restrictive covenants, including financial covenants requiring us to maintain specified financial ratios and limitations on our ability to incur additional liens and indebtedness or to pay dividends and make certain investments. Our ability to comply with these restrictive covenants can be affected by events beyond our control. The indebtedness and these restrictive covenants will also have the effect, among other things, of limiting our ability to obtain additional financing, if needed, limiting our flexibility in the conduct of our business and making us more vulnerable to economic downturns and adverse competitive and industry conditions. In addition, a breach of the restrictive covenants could result in an event of default with respect to the indebtedness, which, if not cured or waived, could result in the indebtedness becoming immediately due and payable and could have a material adverse effect on our business, financial condition or operating results.

Because of high debt levels, we may not be able to service our debt obligations in accordance with their terms after the completion of the planned acquisition of SanDisk.

Our ability to meet our expense and debt service obligations contained in the agreements we expect to enter into with respect to the indebtedness we will incur to finance the planned acquisition will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in industry conditions, customer preferences, the success of our products and pressure from competitors. Should our revenues decline after the planned acquisition of SanDisk, we may not be able to generate sufficient cash flow to pay our debt service obligations when due. If we are unable to meet our debt service obligations after the planned acquisition or should we fail to comply with our financial and other restrictive covenants contained in the agreements governing our indebtedness, we may be required to refinance all or part of our debt, sell important strategic assets at unfavorable prices, incur additional indebtedness or issue common stock or other equity securities. We may not be able to, at any given time, refinance our debt, sell assets, incur additional indebtedness or issue equity securities on terms acceptable to us, in amounts sufficient to meet our needs or at all. If we were able to raise additional funds through the issuance of equity securities, such issuance would also result in dilution to our shareholders. Our inability to refinance our debt could have a material adverse effect on our business, financial conditions or operating results after the planned acquisition.

The failure to complete the planned equity investment by Unis, in a timely manner or at all, may adversely affect our business and our stock price.

The closing of our planned issuance of additional shares of our common stock to a subsidiary of Unis in connection with Unis's $3.8 billion equity investment in us is subject to certain closing conditions, including (i) clearance by CFIUS, (ii) the receipt of requisite regulatory approvals, including clearance by U.S. antitrust authorities and certain Chinese regulatory approvals, including clearance by MOFCOM, the Ministry of Education of the People's Republic of China, the National Development and Reform Commission of the People's Republic of China and the State Administration of Foreign Exchange of the People's Republic of China, and (iii) approval of the transaction by Unis shareholders. We cannot provide assurance that these conditions to the completion of the planned Unis Investment will be satisfied in a timely manner or at all. If the planned Unis Investment is not completed, our share price could fall to the extent that our current price reflects an assumption that the transaction will be completed. Furthermore, if the planned equity investment is not completed, the proceeds of the investment will not be available to us to strengthen our balance sheet, provide financial flexibility or pursue long-term strategic growth initiatives, including the planned acquisition of SanDisk, which could adversely affect our business, results of operations and share price. In that event, we would be required to issue additional shares of our common stock to finance a portion of the purchase price for our planned acquisition of SanDisk. See "*The issuance of shares of our common stock in connection with the planned investment by Unis and our planned acquisition of SanDisk, and any future offerings of securities by us, will dilute our shareholders' ownership interest in the company.*"

The issuance of shares of our common stock in connection with the planned investment by Unis and our planned acquisition of SanDisk, and any future offerings of securities by us, will dilute our shareholders' ownership interest in the company.

We will issue additional shares of our common stock to a subsidiary of Unis in connection with Unis's $3.8 billion equity investment in us, comprising approximately 15% of our issued and outstanding shares of common stock (based on the number of shares of our common stock outstanding on September 25, 2015, as adjusted for the issuance of shares to the subsidiary of Unis in connection with the equity investment). Our planned acquisition of SanDisk will be financed in part by the issuance of additional shares of our common stock to shareholders of SanDisk, comprising approximately 1.6% of our issued and outstanding shares of common stock (if the planned Unis Investment closes prior to our planned acquisition of SanDisk), or approximately 22.2% of our issued and outstanding shares of common stock (if the planned Unis Investment has not closed or has been terminated), based on the number of issued and outstanding shares of our common stock on October 2, 2015 and SanDisk's estimated fully diluted shares of common stock outstanding on June 30, 2016. These issuances of additional shares of our common stock will dilute your ownership interest in our company, and you will have a reduced ownership and voting interest in our company following the completion of either or both of these transactions.

In addition, following the planned acquisition of SanDisk, we may from time to time seek to refinance the substantial indebtedness we will incur to finance the acquisition by issuing additional shares of our common stock in one or more securities offerings. These securities offerings by us may dilute our existing shareholders, reduce the value of our common stock, or both. Because our decision to issue securities will depend on, among other things, market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future securities offerings. Thus, holders of our common stock bear the risk of our future offerings diluting and/or reducing the value of our common stock.

If we are unable to successfully integrate the business and operations of HGST, our business and financial condition may be adversely affected.

In connection with obtaining the regulatory approvals required to complete the acquisition of HGST, we agreed to certain conditions required by MOFCOM, including adopting measures to keep HGST as an independent competitor until MOFCOM agreed otherwise. On October 19, 2015, MOFCOM announced that it had made a decision allowing us to integrate substantial portions of our HGST and WD subsidiaries, provided that we continue to offer both HGST and WD product brands and maintain separate sales teams for two years from the date of the decision.

As a result of MOFCOM's decision, we immediately began planning for the integration of the substantial portions of our HGST and WD subsidiaries that we are now allowed to integrate (including corporate functions, research and development, heads and media operations, engineering and manufacturing). We expect the integration will occur in phases over the next 24 months. Our integration efforts during this time may involve significant management time and create uncertainty for employees and customers, and delays in the process could have a material adverse effect on our business, results of operations and financial condition. It is possible that the integration process could result in the loss of key employees, the loss of customers, the disruption of our company's ongoing business or in unexpected integration issues, higher than expected integration costs and an overall integration process that takes longer than originally anticipated. Additionally, the integration of the operations of our HGST and WD subsidiaries may also increase the risk that our internal controls are found to be ineffective. Further, until we are able to begin combining our HGST and WD product brands and sales teams on October 19, 2017, we will continue to incur additional costs to maintain separate brands and sales teams. These additional costs, any delay in the integration process and any higher than expected integration costs or other integration issues could adversely affect our ability to achieve the full operating expense synergies we expect from integration of the businesses of our HGST and WD subsidiaries, which could harm our business and financial condition.

Risks Related to Our Business

Adverse global economic conditions and credit market uncertainty could harm our business, results of operations and financial condition.

Adverse global economic conditions and uncertain conditions in the credit market have had, and in the future could have, a significant adverse effect on our company and on the storage industry as a whole. Several factors contribute to these conditions and this uncertainty, including, but not limited to, volatility in the financial and real estate markets, cost increases and other macroeconomic factors. Some of the risks and uncertainties we face as a result of these conditions include the following:

- *Volatile Demand.* Our direct and indirect customers may delay or reduce their purchases of our products and systems containing our products. In addition, many of our customers rely on credit financing to purchase our products. If negative conditions in the global credit markets prevent our customers' access to credit, product orders may decrease, which could result in lower revenue. Likewise, if our suppliers, sub-suppliers and sub-contractors (collectively referred to as "suppliers") face challenges in obtaining credit, in selling their products or otherwise in operating their businesses, they may be unable to offer the materials we use to manufacture our products. These actions could result in reductions in our revenue and increased operating costs, which could adversely affect our business, results of operations and financial condition.

- *Restructuring Activities.* If demand for our products slows as a result of a deterioration in economic conditions, we may undertake restructuring activities to realign our cost structure with softening demand. The occurrence of restructuring activities could result in impairment charges and other expenses, which could adversely impact our results of operations or financial condition.

- *Credit Volatility and Loss of Receivables.* We extend credit and payment terms to some of our customers. In addition to ongoing credit evaluations of our customers' financial condition, we traditionally seek to mitigate our credit risk by purchasing credit insurance on certain of our accounts receivable balances. As a result of the continued uncertainty and volatility in global economic conditions, however, we may find it increasingly difficult to be able to insure these accounts receivable. We could suffer significant losses if a customer whose accounts receivable we have not insured, or have underinsured, fails and is unable to pay us. Additionally, negative or uncertain global economic conditions increase the risk that if a customer whose accounts receivable we have insured fails, the financial condition of the insurance carrier for such customer account may have also deteriorated such that it cannot cover our loss. A significant loss of an accounts receivable that we cannot recover through credit insurance would have a negative impact on our financial results.

- *Impairment Charges.* Negative or uncertain global economic conditions could result in circumstances, such as a sustained decline in our stock price and market capitalization or a decrease in our forecasted cash flows such that they are insufficient, indicating that the carrying value of our long-lived assets or goodwill may be impaired. If we are required to record a significant charge to earnings in our consolidated financial statements because an impairment of our long-lived assets or goodwill is determined, our results of operations will be adversely affected.

We participate in a highly competitive industry that is subject to declining average selling prices ("ASPs"), volatile gross margins and significant shifts in market share, all of which could adversely affect our operating results.

Demand for our devices, software and solutions that we offer to our customers, which we refer to in this Item 1A as our "products", depends in large part on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for our products in any given period. As a result, the storage market has experienced periods of excess capacity, which can lead to liquidation of excess inventories and more intense price competition. If more intense price competition occurs, we may be forced to lower prices sooner and more than expected, which could adversely impact revenue and gross margins. In addition, we compete based on our ability to offer our customers competitive solutions that provide the most current and desired product and service features. We expect that competition will continue to be intense, and there is a risk that our competitors' products may be less costly, provide better performance or include additional features when compared to our products. Our ASPs and gross margins also tend to decline when there is a shift in the mix of product sales, and sales of lower priced products increase relative to those of higher priced products. Further, we face potential gross margin pressures resulting from our ASPs declining more rapidly than our cost of goods sold. 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, along with others, may result in significant shifts in market share among the industry's major participants, including a substantial decrease in our market share.

Our failure to accurately forecast market and customer demand for our products, or to quickly adjust to forecast changes, could adversely affect our business and financial results or operating efficiencies.

The data storage industry faces difficulties in accurately forecasting market and customer demand for its products. The variety and volume of products we manufacture is based in part on these forecasts. Accurately forecasting demand has become increasingly difficult for us, our customers and our suppliers in light of the volatility in global economic conditions and industry consolidation, resulting in less availability of historical market data for certain product segments. Further, for many of our OEMs utilizing just-in-time inventory, we do not generally require firm order commitments and instead receive a periodic forecast of requirements, which may prove to be inaccurate. In addition, because our products are designed to be largely interchangeable with competitors' products, our demand forecasts may be impacted significantly by the strategic actions of our competitors. As forecasting demand becomes more difficult, the risk that our forecasts are not in line with demand increases. If our forecasts exceed actual market demand, then we could experience periods of product oversupply and price decreases, which could impact our financial performance. If market demand increases significantly beyond our forecasts or beyond our ability to add

manufacturing capacity, then we may not be able to satisfy customer product needs, possibly resulting in a loss of market share if our competitors are able to meet customer demands.

We experience significant sales seasonality and cyclicality, which could cause our operating results to fluctuate.

Sales of computer systems, storage subsystems, gaming consoles and consumer electronics ("CE") tend to be seasonal and cyclical, and therefore we expect to continue to experience seasonality and cyclicality in our business as we respond to variations in our customers' demand for our products. However, changes in seasonal and cyclical patterns have made it, and could continue to make it, more difficult for us to forecast demand, especially as a result of the current macroeconomic environment. Changes in the product or channel mix of our business can also impact seasonal and cyclical patterns, adding complexity in forecasting demand. Seasonality and cyclicality also may lead to higher volatility in our stock price. It is difficult for us to evaluate the degree to which seasonality and cyclicality may affect our stock price or business in future periods because of the rate and unpredictability of product transitions and new product introductions and macroeconomic conditions.

Our sales to the CE, cloud computing, network attached storage (NAS), surveillance and enterprise markets, which have accounted for and may continue accounting for an increasing percentage of our overall revenue, may grow at a slower rate than current estimates or not at all, which could materially adversely impact our operating results.

The secular growth of digital data has resulted in a more diversified mix of revenue from the CE, cloud computing, NAS, surveillance and enterprise markets. As sales into these markets have become a more significant portion of our revenue, events or circumstances that adversely impact demand in these markets, or our inability to address that demand successfully, could materially adversely impact our operating results. For example, demand in, or our sales to, these markets may be adversely affected by the following:

- *Mobile Devices.* There has been and continues to be a rapid growth in devices that do not contain a hard drive such as tablet computers and smart phones. As tablet computers and smart phones provide many of the same capabilities as PCs, they have displaced or materially affected, and we expect will continue to displace or materially affect, the demand for PCs. If we are not successful in adapting our product offerings to include disk drives or alternative storage solutions that address these devices, including through completion of the planned acquisition of SanDisk, demand for our products in these markets may decrease and our financial results could be materially adversely affected.

- *Cloud Computing.* Consumers traditionally have stored their data on their PC, often supplemented with personal external storage devices. Most businesses also include similar local storage as a primary or secondary storage location. This storage is typically provided by HDDs. With cloud computing, applications and data are hosted, accessed and processed through a third-party provider over a broadband Internet connection, potentially reducing or eliminating the need for, among other things, significant storage inside the accessing computer. Even if we are successful at increasing revenues from sales to cloud computing customers, if we are not successful in manufacturing compelling products to address the cloud computing opportunity, demand for our products in these other markets may decrease and our financial results could be materially adversely affected. Demand for cloud computing solutions themselves may be volatile due to differing patterns of technology adoption and innovation, improved data storage efficiency by cloud computing service providers, and concerns about data protection by end users.

- *Obsolete Inventory.* In some cases, products we manufacture for these markets are uniquely configured for a single customer's application, creating a risk of obsolete inventory if anticipated demand is not actually realized. In addition, rapid technological change in our industry increases the risk of inventory obsolescence.

- *Macroeconomic Conditions.* Consumer spending has been, and may continue to be, adversely affected in many regions due to negative macroeconomic conditions and high unemployment levels. Please see the risk factor entitled "*Adverse global economic conditions and credit market uncertainty could harm our business, results of operations and financial condition.*" for more risks and uncertainties relating to macroeconomic conditions.

In addition, demand in these markets also could be negatively impacted by developments in the regulation and enforcement of digital rights management and the emergence of new technologies, such as data deduplication, compression and storage virtualization. If we are not able to respond appropriately, these factors could lead to our customers' storage needs being satisfied at lower prices with lower capacity hard drives or solid-state storage products, thereby decreasing our revenue or putting us at a disadvantage to competing storage technologies. As a result, even with increasing aggregate demand for digital storage, if we fail to anticipate or timely respond to these developments in the demand for storage, our ASPs could decline, which could adversely affect our operating results. Furthermore, our ability to accurately read and respond to market trends, such as trends relating to the Internet or big data, could harm our results.

Deterioration in the client compute market ("the PC market") has accelerated, which could cause our operating results to suffer.

While sales to non-PC markets are becoming a more significant source of revenue, sales to the PC market remain an important part of our business. The PC market, however, has been, and may continue to be, adversely affected by the growth of tablet computers, smart phones and similar devices that perform many of the same capabilities as PCs, the lengthening of product life cycles and macroeconomic conditions. We believe that the deterioration of the PC market has accelerated recently, and that this accelerated deterioration may continue or further accelerate, which could cause our operating results to suffer. Additionally, if demand in the PC market is worse than expected as a result of these or other conditions, demand for our products in the PC market may decrease at a faster rate and our operating results may be adversely affected.

Selling to the retail market is an important part of our business, and if we fail to maintain and grow our market share or gain market acceptance of our branded products, our operating results could suffer.

Selling branded products is an important part of our business, and as our branded products revenue increases as a portion of our overall revenue, our success in the retail market becomes increasingly important to our operating results. Our success in the retail market depends in large part on our ability to maintain our brand image and corporate reputation and to expand into and gain market acceptance of our products in multiple channels. We must successfully respond to the rapid change away from traditional advertising media, marketing and sales methods to the use of Internet media and advertising, particularly social media, and online sales, or our brand and retail sales could be negatively affected. Adverse publicity, whether or not justified, or allegations of product or service quality issues, even if false or unfounded, could tarnish our reputation and cause our customers to choose products offered by our competitors. In addition, the proliferation of new methods of mass communication facilitated by the Internet makes it easier for false or unfounded allegations to adversely affect our brand image and reputation. If customers no longer maintain a preference for WD or HGST™ brand products, our operating results may be adversely affected.

Sales in the distribution channel are important to our business, and if we fail to respond to demand changes in distribution markets or if distribution markets for our products weaken, our operating results could suffer.

Our distribution customers typically sell to small computer manufacturers, dealers, systems integrators and other resellers. We face significant competition in this channel as a result of limited product qualification programs and a significant focus on price and availability of product. In addition, the PC market is experiencing a shift to notebook and other mobile devices and, as a result, more computing devices are being delivered to the market as complete systems, which could weaken the distribution market. If we fail to respond to changes in demand in the distribution market, our operating results could suffer. Additionally, if the distribution market weakens as a result of a slowing PC growth rate, technology transitions or a significant change in consumer buying preference, or if we experience significant price declines due to demand changes in the distribution channel, then our operating results would be adversely affected.

Loss of market share with or by a key customer, or consolidation among our customer base, could harm our operating results.

During the quarter ended October 2, 2015, 48% of our revenue came from sales to our top 10 customers. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, often resulting in the allocation of risk to us as the supplier. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, 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, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship, our operating results would likely be harmed.

Additionally, if there is consolidation among our customer base, our customers may be able to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, if, as a result of increased leverage, customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue. Consolidation among our customer base may also lead to reduced demand for our products, replacement of our products by the combined entity with those of our competitors and cancellations of orders, each of which could harm our operating results.

Also, the storage ecosystem is constantly evolving, and our traditional customer base is changing. Fewer companies now hold greater market share for certain applications and services, such as social media, shopping and streaming media. As a result, the competitive landscape is changing, giving these companies increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, the changes in our evolving customer base create new selling and distribution patterns to which we must adapt. To remain competitive, we must respond to these changes by ensuring we have proper scale in this evolving market, as well as offer products that meet the technological requirements of this customer base at

competitive pricing points. To the extent we are not successful in adequately responding to these changes, our operating results could be harmed.

Expansion into new markets may increase the complexity of our business, cause us to increase our research and development expenses to develop new products and technologies or cause our capital expenditures to increase, and if we are unable to successfully adapt our business processes and product offerings as required by these new markets, our ability to grow will be adversely affected.

To remain a significant supplier in the storage industry and to expand into new markets, we will need to offer a broad range of storage products to our customers. We currently offer a variety of 3.5-inch and 2.5-inch hard drives, solid state drives and systems and other products for the PC, enterprise, data center and other storage markets. As we expand our product lines to sell into new markets, such as our recent entry into active archive systems and particularly following our planned acquisition of SanDisk, the overall complexity of our business may increase at an accelerated rate and we may become subject to different market dynamics. These dynamics may include, among other things, different demand volume, seasonality, product requirements, sales channels, and warranty and return policies. In addition, expansion into other markets may result in increases in research and development expenses and substantial investments in manufacturing capability or technology enhancements. If we fail to successfully expand into new markets with products that we do not currently offer, we may lose business to our competitors or new entrants who offer these products.

Our vertical integration of head and magnetic media manufacturing makes us dependent on our ability to timely and cost-effectively develop heads and magnetic media with leading technology and overall quality, increasing capital expenditure costs and asset utilization risks for our business.

We develop and manufacture a substantial portion of the heads and magnetic media used in the hard drive products we produce. Consequently, we are more dependent upon our own development and execution efforts and less able to take advantage of head and magnetic media technologies developed by other manufacturers. Technology transition for head and magnetic media designs is critical to increasing our volume production of heads and magnetic media. We may be unsuccessful in timely and cost-effectively developing and manufacturing heads or magnetic media for products using future technologies. We also may not effectively transition our head or magnetic media design and technology to achieve acceptable manufacturing yields using the technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the heads or magnetic media we manufacture. If we are unable to timely and cost-effectively develop heads and magnetic media with leading technology and overall quality, our ability to sell our products may be significantly diminished, which could materially and adversely affect our business and financial results.

In addition, as a result of our vertical integration of head and magnetic media manufacturing, we make more capital investments and carry a higher percentage of fixed costs than we would if we were not vertically integrated. If our overall level of production decreases for any reason, and we are unable to reduce our fixed costs to match sales, our head or magnetic media manufacturing assets may face underutilization that may impact our operating results. We are therefore subject to additional risks related to overall asset utilization, including the need to operate at high levels of utilization to drive competitive costs and the need for assured supply of components that we do not manufacture ourselves. In addition, as a result of adverse labor rates or availability, we may be required to increase investments in automation, which may cause our capital expenditures to increase. If we do not adequately address the challenges related to our head or magnetic media manufacturing operations, our ongoing operations could be disrupted, resulting in a decrease in our revenue or profit margins and negatively impacting our operating results.

We make significant investments in research and development to improve our technology and develop new technologies, and unsuccessful investments or investments that are not cost effective could materially adversely affect our business, financial condition and results of operations.

As a leading supplier of hard drives and a major supplier of enterprise SSDs, we make significant investments to maintain our existing products and to lead innovation and development of new technologies. This strategy requires us to make significant investments in research and development and, in order to remain competitive, we may increase our capital expenditures and expenses above our historical run-rate model. The current inherent physical limitations associated with storage technologies are resulting in more costly capital expenditures that reduce the cost benefits of technology transitions and could limit our ability to keep pace with reductions in ASPs. These investments may not result in viable technologies or products, and even if they do result in viable technologies or products, they may not be profitable or accepted by the market. Significant investments in unsuccessful or cost-ineffective research and development efforts could materially adversely affect our business, financial condition and results of operations. In addition, increased investments in technology could cause our cost structure to fall out of alignment with demand for our products, which would have a negative impact on our financial results.

Current or future competitors may gain a technology advantage or develop an advantageous cost structure that we cannot match.

It may be possible for our current or future competitors to gain an advantage in product technology, manufacturing technology, or process technology, which may allow them to offer products or services that have a significant advantage over the products and services that we offer. Advantages could be in capacity, performance, reliability, serviceability, or other attributes. A competitive cost structure for our products, including critical components, labor and overhead, is also critical to the success of our business. We may be at a competitive disadvantage to any companies that are able to gain a technological or cost structure advantage.

Consolidation within the data storage industry could provide competitive advantages to our competitors.

The data storage industry as a whole has experienced consolidation over the past several years through acquisitions, consolidations and decisions by industry players to exit the industry. Consolidation across the industry, including by our competitors, may enhance their capacity, abilities and resources and lower their cost structure, causing us to be at a competitive disadvantage.

Some of our competitors with diversified business units outside of storage products, may, over extended periods of time, sell storage products at prices that we cannot profitably match.

Some of our competitors earn a significant portion of their revenue from business units outside of storage products. Because they do not depend solely on sales of storage products to achieve profitability, they may sell storage products at lower prices and operate their storage business unit at a loss over an extended period of time while still remaining profitable overall. In addition, if these competitors can increase sales of non-storage products to the same customers, they may benefit from selling their storage products at lower prices. Our operating results may be adversely affected if we cannot successfully compete with the pricing by these companies.

If we fail to qualify our products with our customers, it may have a significant adverse impact on our sales and margins.

We regularly engage in new product qualification with our customers. Once a product is accepted for qualification testing, failures or delays in the qualification process can result in delayed or reduced product sales, reduced product margins caused by having to continue to offer a more costly current generation product, or lost 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 OEMs, which continue to consolidate their share of the storage markets. Likewise, if product life cycles lengthen, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could reduce our profits because we expect declining gross margins on our current generation products as a result of competitive pressures.

We are subject to risks related to product defects or the unintended use of our products, which could result in product recalls or epidemic failures and could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated.

We warrant the majority of our products for periods of one to five years. We test our products in our manufacturing facilities through a variety of means. However, our testing may fail to reveal defects in our products that may not become apparent until after the products have been sold into the market. In addition, our products may be used in a manner that is not intended or anticipated by us, resulting in potential liability. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement. As part of a product recall, we may be required or choose to replace the defective product. Moreover, there is a risk that product defects may trigger an epidemic failure clause in a customer agreement. If an epidemic failure occurs, we may be required to replace or refund the value of the defective product and to cover certain other costs associated with the consequences of the epidemic failure. In addition, a product recall or epidemic failure may damage our reputation or customer relationships, and may cause us to lose market share with our customers, including our OEM and ODM customers.

Our standard warranties contain limits on damages and exclusions of liability for consequential damages and for misuse, improper installation, alteration, accident or mishandling while in the possession of someone other than us. We record an accrual for estimated warranty costs at the time revenue is recognized. We may incur additional expenses if our warranty provision do not reflect the actual cost of resolving issues related to defects in our products, whether as a result of a product recall, epidemic failure or otherwise. If these additional expenses are significant, it could adversely affect our business, financial condition and operating results.

In addition, third-party components or applications that we incorporate or use in our products may contain defects in design or manufacturing that could unexpectedly result in epidemic failures and subject us to liability.

Because we are dependent on a limited number of qualified suppliers for components, sub-assemblies, equipment, consumables, raw materials, and logistics, a supplier's inability, unwillingness, or failure to support us in a timely manner with goods or services at a quality level and cost acceptable to us can adversely affect our margins, revenues and operating results.

We depend on an external supply base for technologies, software (including firmware), components, equipment and materials for use in our product design and manufacturing. We also depend on service suppliers for providing technical support for our products. In addition, we use logistics partners to manage our just-in-time hubs, distribution centers and freight from suppliers to our factories and from our factories to our customers throughout the world. Many of these components and much of this equipment must be specifically designed to be compatible for use in our products or for developing and manufacturing our future products, and are only available from a limited number of suppliers, some of whom are our sole-source suppliers. We are therefore dependent on these suppliers to be able and willing to dedicate adequate engineering resources to develop components that can be successfully integrated into our products, technology and equipment that can be used to develop and manufacture our next-generation products efficiently. Where we rely on a limited number of suppliers or a single supplier, the risk of supplier loss due to industry consolidation is enhanced.

Many of the risks that affect us also affect our supply base, including, but not limited to, having single site manufacturing locations based in high risk regions of the world, macro and local economic conditions, shortages of commodity materials, proper management of technology transitions, natural disasters, geo-political risks, compliance with legal requirements, financial instability and exposure to intellectual property and other litigation, including an injunction or other action that could delay shipping. If any of these risks were to affect our suppliers, we could also be adversely affected, especially in the case of products, components or services that are single-sourced. For example, if suppliers are facing increased costs due to the above risks, they may require us to enter into long-term volume agreements to shift the burden of fixed costs to us. Further, we work closely with many of our suppliers to develop new technologies and, as a result, we may become subject to litigation from our suppliers or third parties.

Without a capable and financially stable supply base that has established appropriate relationships within the supply chain and has implemented business processes, strategies and risk management safeguards, we would be unable to develop our products, manufacture them in high volumes, and distribute them to our customers to execute our business plans effectively. As PC demand declines, competition increases from NAND and other consumer devices, the total available market for HDDs decreases and costs increase, these suppliers may reevaluate their business models. Our suppliers may be acquired by our competitors, consolidate, or decide to exit the industry, redirect their investments and increase costs to us, each of which may have an adverse effect on our business and operations. In addition, moving to new technologies may require us to align to, and build, a new supply base, such as NAND flash. In the case of NAND suppliers, many of which are involved in developing storage products such as SSD that, in some cases, compete with our products. Our success in these new product areas may be dependent on our ability and their willingness to develop close relationships, with preferential agreements. Where this cannot be done, our business and operations may be adversely affected.

In addition to an external supply base, we also rely on an internal supply chain of heads, media and media substrate. Please see the risk factors entitled, "*A fundamental change in storage technologies could result in significant increases in our costs and could put us at a competitive disadvantage," and "If we do not properly manage technology transitions, our competitiveness and operating results may be negatively affected,"* for a review of some of the risks related to our internal supply.

Price volatility, shortages of critical materials or components, or use by other industries of materials and components used in the storage industry, may negatively impact our operating results.

Increases in the cost for certain critical materials and components and oil may increase our costs of manufacturing and transporting our products and key components and may result in lower operating margins if we are unable to pass these increased costs on to our customers. Shortages of critical components such as DRAM and NAND flash, or materials such as glass substrates, stainless steel, aluminum, nickel, neodymium, ruthenium, platinum or cerium, may increase our costs and may result in lower operating margins if we are unable to find ways to mitigate these increased costs. We or our suppliers acquire certain precious metals and rare earth metals like ruthenium, platinum, neodymium and cerium, which are critical to the manufacture of components in our products from a number of countries, including the People's Republic of China. The government of China or any other nation may impose regulations, quotas or embargoes upon these metals that would restrict the worldwide supply of such metals or increase their cost, both of which could negatively impact our operating results until alternative suppliers are sourced. Furthermore, if other high volume industries increase their demand for materials or components used in our products, our costs may further increase, which could have an adverse effect on our operating margins. In addition, shortages in other components

and materials used in our customers' products could result in a decrease in demand for our products, which would negatively impact our operating results.

Contractual commitments with component suppliers may result in us paying increased charges and cash advances for such components or may cause us to have inadequate or excess component inventory.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying components, which may subject us to cancellation charges if we cancel orders as a result of technology transitions or changes in our component needs. In addition, we may from time to time enter into contractual commitments with component suppliers in an effort to increase and stabilize the supply of those components and enable us to purchase such components at favorable prices. Some of these commitments may require us to buy a substantial number of components from the supplier or make significant cash advances to the supplier; however, these commitments may not result in a satisfactory increase or stabilization of the supply of such components. Furthermore, as a result of uncertain global economic conditions, our ability to forecast our requirements for these components has become increasingly difficult, therefore increasing the risk that our contractual commitments may not meet our actual supply requirements, which could cause us to have inadequate or excess component inventory and adversely affect our operating results and increase our operating costs.

Changes in product life cycles could adversely affect our financial results.

If product life cycles lengthen, we may need to develop new technologies or programs to reduce our costs on any particular product to maintain competitive pricing for that product. Longer product life cycles could also restrict our ability to transition customers to our newer products in a timely manner, or at all, negatively impacting our ability to recoup our significant research and development investments to improve our existing technology and develop new technologies. If product life cycles shorten, it may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results. In addition, shortening of product life cycles also makes it more difficult to recover the cost of product development before the product becomes obsolete. Our failure to recover the cost of product development in the future could adversely affect our operating results.

A fundamental change in storage technologies could result in significant increases in our costs and could put us at a competitive disadvantage.

Historically, when the industry experiences a fundamental change in storage technologies, any manufacturer that fails to successfully and timely adjust its designs and processes to accommodate the new technology fails to remain competitive. There are some revolutionary technologies, such as current-perpendicular-to-plane giant magnetoresistance, shingle magnetic recording, heat-assisted magnetic recording, patterned magnetic media and advanced signal processing that if implemented by a competitor on a commercially viable basis ahead of the industry, could put us at a competitive disadvantage. As a result of these technology shifts, we could incur substantial costs in developing new technologies, such as heads, magnetic media, and tools to remain competitive. If we fail to successfully implement these new technologies, or if we are significantly slower than our competitors at implementing new technologies, we may not be able to offer products with capacities that our customers desire, which could harm our operating results.

The difficulty of introducing hard drives with higher levels of areal density and the challenges of reducing other costs may impact our ability to achieve historical levels of cost reduction.

Storage capacity of the hard drive, as manufactured by us, is determined by the number of disks and each disk's areal density. Areal density is a measure of the amount of magnetic bits that can be stored on the recording surface of the disk. Generally, the higher the areal density, the more information can be stored on a single platter. Higher areal densities require existing head and magnetic media technology to be improved or new technologies developed to accommodate more data on a single disk. Historically, we have been able to achieve a large percentage of cost reduction through increases in areal density. Increases in areal density mean that the average drive we sell has fewer heads and disks for the same capacity and, therefore, may result in a lower component cost. However, increasing areal density has become more difficult in the storage industry. If we are not able to increase areal density at the same rate as our competitors or at a rate that is expected by our customers, we may be required to include more components in our drives to meet demand without corresponding incremental revenue, which could negatively impact our operating margins and make achieving historical levels of cost reduction difficult or unlikely. Additionally, increases in areal density may require us to make further capital expenditures on items such as new test equipment needed as a result of an increased number of gigabytes per platter. Our inability to achieve cost reductions could adversely affect our operating results.

If we do not properly manage technology transitions, our competitiveness and operating results may be negatively affected.

The storage markets in which we offer our products continuously undergo technology transitions that we must anticipate and adapt our products to address in a timely manner. If we fail to implement new technologies successfully, or if we are slower than our competitors at implementing new technologies, we may not be able to competitively offer products that our customers desire, which could harm our operating results.

If we do not properly manage new product development, our competitiveness and operating results may be negatively affected.

As advances in computer hardware and software are made, our customers have demanded a more diversified portfolio of products with new and additional features. In some cases, this demand results in investments in new products for a particular market that do not necessarily expand overall market opportunity, which may negatively affect our operating results.

In addition, the success of our new product introductions depends on a number of other factors, including:

- difficulties faced in manufacturing ramp;
- implementing at an acceptable cost product features expected by our customers;
- market acceptance/qualification;
- effective management of inventory levels in line with anticipated product demand;
- quality problems or other defects in the early stages of new product introduction and problems with compatibility between our products and those of our customers that were not anticipated in the design of those products; and
- our ability to increase our software development capability.

In particular, as part of our growth strategy, we have made significant investments in active archive systems, which are designed to enable organizations to rapidly access massive long-term data stores. For example, our acquisition of Amplidata was partially driven by our strategy to expand in this area. We expect to continue to make significant investments in active archive systems. Our active archive systems may fail to gain market acceptance, or the market for active archive systems may not grow as we anticipate.

We have also seen, and anticipate continuing to see, an increase in customers requesting that we develop products, including software associated with our products, that incorporate open source software elements and operate in an open source environment. Adapting to this demand may cause product delays, placing us at a competitive disadvantage. Open source products could also reduce our capability for product differentiation or innovation and our affected products could be diminished to commodity status, which we expect would place increased downward pressure on our margins. If we fail to successfully anticipate and manage issues associated with our product development generally, our business may suffer.

If we fail to develop and introduce new products that are competitive against alternative storage technologies, our business may suffer.

Our success depends in part on our ability to develop and introduce new products in a timely manner in order to keep pace with technology advancements. Newer storage technologies have successfully served mobility markets for products that cannot be serviced using traditional storage technologies. Advances in semiconductor technology have resulted in other emerging technologies that can be competitive with traditional storage technologies. For example, SSDs have significantly increased their penetration in notebook PCs in recent years. We believe that SSDs will increasingly replace HDDs in notebook and desktop PCs, and we currently do not offer client SSD solutions. We also expect that SSD penetration will increase in enterprise areas requiring high performance needs in advanced digital computing. We may be unsuccessful in anticipating and developing new and improved products for the client, enterprise and other storage markets in response to competing technologies. If our hard drive and solid state products fail to offer a superior value proposition to alternative storage products, we will be at a competitive disadvantage and our business will suffer.

Our operations, and those of certain of our suppliers and customers, are concentrated in large, purpose-built facilities, subjecting us to substantial risk of damage or loss if operations at any of these facilities are disrupted.

As a result of our cost structure and strategy of vertical integration, we conduct our operations at large, high volume, purpose-built facilities in California and throughout Asia. The facilities of many of our customers, our suppliers and our customers' suppliers are also concentrated in certain geographic locations throughout Asia and elsewhere. A localized health risk affecting our employees at these facilities or the staff of our or our customers' other suppliers, such as the spread of a pandemic influenza, could impair the total volume of our products that we are able to manufacture or sell, which would result in substantial harm to our operating results. Similarly, a fire, flood, earthquake, tsunami or other natural disaster, condition or event such as political instability, civil unrest or a power outage that adversely affects any of these facilities, including access to or from these facilities by employees or logistics operators, would significantly affect our ability to manufacture or sell our products, which would result in a substantial loss of sales and revenue and a substantial harm to our operating results. For example, prior to the 2011 flooding in Thailand, all of WD's internal slider capacity and 60% of WD's hard drive manufacturing capacity was in Thailand. As a result of the flooding in Thailand, WD's facilities were inundated and temporarily shut down. During that period, WD's ability to manufacture hard drives was significantly constrained, adversely affecting WD's business, financial condition and results of operations. In addition, the concentration of our manufacturing sites could exacerbate the negative impacts resulting from localized labor unrest or other employment issues. A significant event that impacts any of our manufacturing sites, or the sites of our customers or suppliers, could adversely affect our ability to manufacture or sell our products, and our business, financial condition and results of operations could suffer.

Manufacturing, marketing and selling our products globally subjects us to numerous risks.

We are subject to risks associated with our global manufacturing operations and global marketing and sales efforts, as well as risks associated with our utilization of and reliance on contract manufacturers, including:

- obtaining requisite governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest;
- limited transportation availability, delays, and extended time required for shipping, which risks may be compounded in periods of price declines;
- higher freight rates;
- labor challenges, including difficulties finding and retaining talent or responding to labor disputes or disruptions;
- trade restrictions or higher tariffs;
- copyright levies or similar fees or taxes imposed in European and other countries;
- exchange, currency and tax controls and reallocations;
- increasing labor and overhead costs; and
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

Terrorist attacks may adversely affect our business and operating results.

The continued threat of terrorist activity and other acts of war or hostility have created uncertainty in the financial and insurance markets and have significantly increased the political, economic and social instability in some of the geographic areas in which we, our suppliers or our customers operate. Additionally, it is uncertain what impact the reactions to such acts by various governmental agencies and security regulators worldwide will have on shipping costs. Acts of terrorism, either domestically or abroad, could create further uncertainties and instability. To the extent this results in disruption or delays of our manufacturing capabilities or shipments of our products, our business, operating results and financial condition could be adversely affected.

Sudden disruptions to the availability of air transportation, or ocean or land freight lanes, could have an impact on our operations.

We generally ship our products to our customers, and receive shipments from our suppliers, via air, ocean or land freight. The sudden unavailability or disruption of air transportation, cargo operations or ocean, rail or truck freight lanes caused by, among other things, labor difficulties or disputes, severe weather patterns or other natural disasters, or political instability or civil unrest, could impact our operating results by impairing our ability to timely and efficiently deliver our products.

If our technology infrastructure, systems or products are compromised, damaged or interrupted by cyber attacks, data security breaches, other security problems, security vulnerabilities, design defects, or sustain system failures, our operating results and financial condition could be adversely affected.

We experience cyber attacks of varying degrees on our technology infrastructure and systems and, as a result, unauthorized parties have obtained in the past, and may in the future obtain, access to our computer systems and networks. Cyber attacks can include computer viruses, computer denial-of-service attacks, worms, and other malicious software programs or other attacks, covert introduction of malware to computers and networks, impersonation of authorized users, and efforts to discover and exploit any security vulnerabilities or security weaknesses, as well as intentional or unintentional acts by employees or other insiders with access privileges, intentional acts of vandalism by third parties and sabotage. We believe cyber attack attempts are increasing in number and that cyber attackers are developing increasingly sophisticated systems and means to not only attack systems, but also to evade detection or to obscure their activities. Our products are also targets for cyber attacks. While some of our products contain encryption or security algorithms to protect third-party content or user-generated data stored on our products, these products could still be hacked or the encryption schemes could be compromised, breached, or circumvented by motivated and sophisticated attackers.

In addition, our technology infrastructure and systems are vulnerable to damage or interruption from natural disasters, power loss and telecommunications failures. Further, our products contain sophisticated hardware and operating system software and applications that may contain security problems, security vulnerabilities, or defects in design or manufacture, including “bugs” and other problems that could interfere with the intended operation of our products.

If efforts to breach our infrastructure, systems or products are successful or we are unable to protect against these risks, we could suffer interruptions, delays, or cessation of operations of our systems, and loss or misuse of proprietary or confidential information, intellectual property, or sensitive or personal information. Breaches of our infrastructure, systems or products could also cause our customers and other affected third parties to suffer loss or misuse of proprietary or confidential information, intellectual property, or sensitive or personal information, and could harm our relationships with customers and other third parties. As a result, we could experience additional costs, indemnification claims, litigation, and damage to our brand and reputation. All of these consequences could harm our reputation and our business and materially and adversely affect our operating results and financial condition.

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, sharing, and security of third-party data including personal data, and our failure to comply with these laws, rules and regulations could subject us to proceedings by governmental entities or others and cause us to incur penalties, significant legal liability, or loss of customers, loss of revenue, and reputational harm.

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, and security of third-party data including data that relates to or identifies an individual person. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, and among us, our subsidiaries and other parties with which we have commercial relations. Our possession and use of third-party data including personal data in conducting our business subjects us to legal and regulatory burdens that may require us to notify vendors, customers or employees or other parties with which we have commercial relations of a data security breach and to respond to regulatory inquiries and to enforcement proceedings. Global privacy and data protection legislation, enforcement, and policy activity in this area are rapidly expanding and evolving, and may be inconsistent from jurisdiction to jurisdiction. Compliance requirements and even our inadvertent failure to comply with applicable laws may cause us to incur substantial costs, subject us to proceedings by governmental entities or others, and cause us to incur penalties or other significant legal liability, or lead us to change our business practices.

If we fail to identify, manage, complete and integrate acquisitions, investment opportunities or other significant transactions, which are a key part of our growth strategy, it may adversely affect our future results.

We seek to be an industry-leading developer, manufacturer and provider of innovative storage solutions, balancing our core hard drive business with growing investments in newer areas that we believe will provide us with higher growth opportunities. Acquisitions of, investment opportunities in, or other significant transactions with companies that are complementary to our business are a key part of our overall business strategy. For example, we completed the acquisitions of Amplidata in March 2015, Virident in October 2013, and sTec in September 2013. In order to pursue this part of our growth strategy successfully, we must continue to identify attractive acquisition or investment opportunities, successfully complete the transactions, some of which may be large and complex, and manage post-closing issues such as integration of the acquired company or employees. We may not be able to continue to identify or complete appealing acquisition or investment opportunities given the intense competition for these transactions. Even if we identify and complete suitable corporate transactions, we may not be able to successfully address any integration challenges in a timely manner, or at all. Failing to successfully integrate or realign our business to take advantage of efficiencies or reduce redundancies of an acquisition may result in not realizing all or any of the anticipated benefits of the acquisition. In addition, failing to achieve the financial model projections for an acquisition may result in the incurrence of impairment charges and other expenses, both of which could adversely impact our results of operations or financial condition. Furthermore, we may agree to provide continuing service obligations or enter into other agreements in order to obtain certain regulatory approvals of our corporate transactions, and failure to satisfy these additional obligations could result in our failing to obtain regulatory approvals or the imposition of additional obligations on us, any of which could adversely affect our business, financial condition and results of operations.

Please also see the section above titled "*Risks Related to Our Planned Acquisition of SanDisk, the Planned Investment by Unis and Integration of Our HGST Acquisition.*"

Our strategic relationships subject us to risks that could adversely affect our business, financial condition and results of operations.

We have entered into strategic relationships with various partners to reduce the risk associated with relying on external suppliers for technologies, components, equipment and materials for use in our product design and manufacturing. Please see the risk factor entitled "*Because we are dependent on a limited number of qualified suppliers for components, sub-assemblies, equipment, consumables, raw materials, and logistics, a supplier's inability, unwillingness, or failure to support us in a timely manner with goods or services at a quality level and cost acceptable to us can adversely affect our margins, revenues and operating results*," for a further description of the risks associated with our reliance on external suppliers. We have also entered into a strategic relationship with Unis to accelerate sales growth of our data center storage systems in China. These strategic relationships are subject to various risks that could adversely affect the value of our investments and our results of operations. These risks include the following:

- our interests could diverge from our partners' interests or we may not be able to agree with co-venturers on ongoing activities, or on the amount, timing or nature of further investments in the relationship;
- we may experience difficulties and delays in ramping production at, and transferring technology to, such ventures;
- our control over the operations of our ventures is limited;
- due to financial constraints, our co-venturers may be unable to meet their commitments to us or may pose credit risks for our transactions with them;
- due to differing business models or long-term business goals, our partners may decide not to join us in funding capital investment by our ventures, which may result in higher levels of cash expenditures by us;
- we may lose the rights to technology or products being developed by the strategic relationship, including if our partner is acquired by another company, files for bankruptcy or experiences financial or other losses;
- we may experience difficulties or delays in collecting amounts due to us from our co-venturers;
- the terms of our arrangements may turn out to be unfavorable; and
- changes in tax, legal or regulatory requirements may necessitate changes in the agreements with our co-venturers.

If our strategic relationships are unsuccessful or there are unanticipated changes in, or termination of, our strategic relationships, our business, results of operations or financial condition may be adversely affected.

The loss of our key executive management, staff and skilled employees, the inability to hire and integrate new employees or decisions to realign our business could negatively impact our business prospects.

Our success depends upon the continued contributions of our key management, staff and skilled employees, many of whom would be extremely difficult to replace. Global competition for skilled employees in the data storage industry is intense and, as we attempt to move to a position of technology leadership in the storage industry, our business success becomes increasingly dependent on our ability to retain our key staff and skilled employees, to attract, integrate and retain new skilled employees and to make decisions to realign our business to take advantage of efficiencies or reduce redundancies. Volatility or lack of positive performance in our stock price and the overall markets may adversely affect our ability to retain key staff or skilled employees who have received equity compensation. Additionally, because a substantial portion of our key employees' compensation is placed "at risk" and linked to the performance of our business, when our operating results are negatively impacted, we are at a competitive disadvantage for retaining and hiring key management, staff and skilled employees versus other companies that pay a relatively higher fixed salary. If we lose our existing key management, staff or skilled employees, or are unable to hire and integrate new key management, staff or skilled employees, or if we fail to implement succession plans for our key management or staff, our operating results would likely be harmed. Furthermore, if we do not realize the anticipated benefits of our intended realignment after we make decisions regarding our personnel and implement our realignment plans, our operating results could be adversely affected.

The nature of our industry and its reliance on intellectual property and other proprietary information subjects us and our suppliers and customers to the risk of significant litigation.

The data storage 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. Intellectual property risks increase when we enter into new markets where we have little or no intellectual property protection as a defense against litigation. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of litigation are inherently uncertain and may result in adverse rulings or decisions. We may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on our business, financial condition or operating results. As disclosed in Part I, Item 1, Note 5 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, in relation to our litigation matter with Seagate, on October 8, 2014, the Minnesota Supreme Court affirmed the decision of the Minnesota Court of Appeals, and as a result on October 14, 2014, we paid Seagate $773.4 million to satisfy the full amount of the final arbitration award plus interest accrued through October 13, 2014.

We evaluate notices of alleged patent infringement and notices of patents from patent holders that we receive from time to time. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. In addition, we may decide to settle a claim or action against us, which settlement could be 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 increase our costs and harm our operating results. In addition, our suppliers and customers are subject to similar risks of litigation, and a material, adverse ruling against a supplier or customer could negatively impact our business.

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

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. If a competitor is able to reproduce or otherwise capitalize on our technology despite the safeguards we have in place, 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 U.S. laws. 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 contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which could harm our operating results.

The costs of compliance with state, federal and international legal and regulatory requirements, such as environmental, labor, trade, health, safety, anti-corruption and tax regulations, customers' standards of corporate citizenship, and industry

and coalition standards, such as those established by the Electronics Industry Citizenship Coalition, could cause an increase in our operating costs.

We are subject to, and may become subject to additional, state, federal and international laws and regulations governing our environmental, labor, trade, health, safety, anti-corruption and tax practices. These laws and regulations, particularly those applicable to our international operations, are or may be complex, extensive and subject to change. We will need to ensure that we and our suppliers and partners timely comply with such laws and regulations, which may result in an increase in our operating costs. Legislation has been, and may in the future be, enacted in locations where we manufacture or sell our products. In addition, climate change and financial reform legislation is a significant topic of discussion and has generated and may continue to generate federal, international or other regulatory responses in the near future. If we or our suppliers or partners fail to timely comply with applicable legislation, our customers may refuse to purchase our products or we may face increased operating costs as a result of taxes, fines or penalties, or legal liability and reputational damage, which would have a materially adverse effect on our business, financial condition and operating results.

In connection with our compliance with environmental laws and regulations, as well as our compliance with industry and coalition environmental initiatives, such as those established by the Electronics Industry Citizenship Coalition, the standards of business conduct required by some of our customers, and our commitment to sound corporate citizenship in all aspects of our business, we could incur substantial compliance and operating costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws or noncompliant with these initiatives or standards of conduct, we could be subject to governmental fines, liability to our customers and damage to our reputation and corporate brand which could cause our financial condition or operating results to suffer.

Conflict minerals regulations may cause us to incur additional expenses and could limit the supply and increase the cost of certain components and metals contained in our products.

In August 2012, the SEC adopted rules establishing diligence and disclosure requirements regarding the use and source of gold, tantalum, tin and tungsten, commonly referred to as 3TG or conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. These rules require us to determine and report annually whether such 3TG originated from the Democratic Republic of the Congo or an adjoining country. These rules could affect our ability to source components that contain 3TG, or 3TG generally, at acceptable prices and could impact the availability of such components or 3TG, since there may be only a limited number of suppliers of “conflict free” 3TG. Our customers, including our OEM customers, may require that our products contain only conflict free 3TG, and our revenues and margins may be harmed if we are unable to meet this requirement at a reasonable price, or at all, or are unable to pass through any increased costs associated with meeting this requirement. Additionally, we may suffer reputational harm with our customers and other stakeholders if our products are not conflict free or if we are unable to sufficiently verify the origins of the 3TG contained in our products through the due diligence procedures that we implement. We could incur significant costs to the extent that we are required to make changes to products, processes, or sources of supply due to the foregoing requirements or pressures. To the extent that proposed conflict minerals legislation is adopted by the European Commission or Canada, these risks could increase.

Violation of applicable laws, including labor or environmental laws, and certain other practices by our suppliers or customers could harm our business.

We expect our suppliers and customers to operate in compliance with applicable laws and regulations, including labor and environmental laws, and to otherwise meet our required standards of conduct. While our internal operating guidelines promote ethical business practices, we do not control our suppliers or customers or their labor or environmental practices. The violation of labor, environmental or other laws by any of our suppliers or customers, or divergence of a supplier’s or customer’s business practices from those generally accepted as ethical, could harm our business by:

- interrupting or otherwise disrupting the shipment of our product components;
- damaging our reputation;
- forcing us to find alternate component sources;
- reducing demand for our products (for example, through a consumer boycott); or
- exposing us to potential liability for our suppliers’ or customers’ wrongdoings.

Any decisions to reduce or discontinue paying cash dividends to our shareholders could cause the market price for our common stock to decline.

We may modify, suspend or cancel our cash dividend policy in any manner and at any time. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline. Moreover, in the event our payment of quarterly cash dividends are reduced or discontinued, our failure or inability to resume paying cash dividends at historical levels could cause the market price of our common stock to decline.

Fluctuations in currency exchange rates as a result of our international operations may negatively affect our operating results.

Because we manufacture and sell our products abroad, our revenue, margins, operating costs and cash flows are impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar exhibits sustained weakness against most foreign currencies, the U.S. dollar equivalents of unhedged manufacturing costs could increase because a significant portion of our production costs are foreign-currency denominated. Conversely, there would not be an offsetting impact to revenues since revenues are substantially U.S. dollar denominated. Additionally, we negotiate and procure some of our component requirements in U.S. dollars from non-U.S. based vendors. If the U.S. dollar weakens against other foreign currencies, some of our component suppliers may increase the price they charge for their components in order to maintain an equivalent profit margin. If this occurs, it would have a negative impact on our operating results.

Prices for our products are substantially U.S. dollar denominated, even when sold to customers that are located outside the United States. Therefore, as a substantial portion of our sales are from countries outside the United States, fluctuations in currency exchanges rates, most notably the strengthening of the U.S. dollar against other foreign currencies, contribute to variations in sales of products in impacted jurisdictions and could adversely impact demand and revenue growth. In addition, currency variations can adversely affect margins on sales of our products in countries outside the United States.

We attempt to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, foreign exchange contracts. However, these contracts do not cover our full exposure and can be canceled by the counterparty if currency controls are put in place.

Increases in our customers' credit risk could result in credit losses and term extensions under existing contracts with customers with credit losses could result in an increase in our operating costs.

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies, such as ODMs, that provide manufacturing and fulfillment services to our OEM customers. Because these subcontractors are generally not as well capitalized as our direct OEM customers, this subcontractor model exposes us to increased credit risks. Our agreements with our OEM customers may not permit us to increase our product prices to alleviate this increased credit risk. Additionally, as we attempt to expand our OEM and distribution channel sales into emerging economies such as Brazil, Russia, India and China, the customers with the most success in these regions may have relatively short operating histories, making it more difficult for us to accurately assess the associated credit risks. Our acquisition of HGST has also resulted in an increase to our customer credit risk given that we service many of the same customers. Any credit losses we may suffer as a result of these increased risks, or as a result of credit losses from any significant customer, especially in situations where there are term extensions under existing contracts with such customers, would increase our operating costs, which may negatively impact our operating results.

Our operating results fluctuate, sometimes significantly, from period to period due to many factors, which may result in a significant decline in our stock price.

Our quarterly operating results may be subject to significant fluctuations as a result of a number of other factors including:

- the timing of orders from and shipment of products to major customers;
- our product mix;
- changes in the ASPs of our products;
- manufacturing delays or interruptions;
- acceptance by customers of competing products in lieu of our products;
- variations in the cost of and lead times for components for our products;
- limited availability of components that we obtain from a single or a limited number of suppliers;

- seasonal and other fluctuations in demand for systems that use storage devices often due to technological advances; and
- availability and rates of transportation.

We often ship a high percentage of our total quarterly sales in the third month of the quarter, which makes it difficult for us to forecast our financial results before the end of the quarter. As a result of the above or other factors, our forecast of operating results for the quarter may differ materially from our actual financial results. If our results of operations fail to meet the expectations of analysts or investors, it could cause an immediate and significant decline in our stock price.

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting, and actual results may differ significantly from our estimates and assumptions.

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting. The highly technical nature of our products and the rapidly changing market conditions with which we deal means that actual results may differ significantly from our estimates and assumptions. These changes have impacted our financial results in the past and may continue to do so in the future. Key estimates and assumptions for us include:

- price protection adjustments and other sales promotions and allowances on products sold to retailers, resellers and distributors;
- inventory adjustments for write-down of inventories to lower of cost or market value (net realizable value);
- testing of goodwill and other long-lived assets for impairment;
- reserves for doubtful accounts;
- accruals for product returns;
- accruals for warranty costs related to product defects;
- accruals for litigation and other contingencies;
- liabilities for unrecognized tax benefits; and
- expensing of stock-based compensation.

The market price of our common stock is volatile.

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

- actual or anticipated fluctuations in our operating results, including those resulting from the seasonality of our business;
- 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;
- strategic actions by us or competitors, such as acquisitions and restructurings;
- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures or industry consolidation;
- developments with respect to patents or proprietary rights;
- proposed or adopted regulatory changes or developments or anticipated or pending investigations, proceedings or litigation that involve or affect us or our competitors;

- conditions and trends in the hard drive, solid state storage, computer, data and content management, storage and communication industries;

- contraction in our operating results or growth rates that are lower than our previous high growth-rate periods;

- failure to meet analysts' revenue or earnings estimates or changes in financial estimates or publication of research reports and recommendations by financial analysts relating specifically to us or the storage industry in general; and

- macroeconomic conditions that affect the market generally and, in particular, developments related to market conditions for our industry.

In addition, the stock market is subject to fluctuations in the stock prices and trading volumes that affect the market prices of the stock of public companies, including us. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of shares of our common stock. For example, expectations concerning general economic conditions may cause the stock market to experience extreme price and volume fluctuations from time to time that particularly affect the stock prices of many high technology companies. These fluctuations often appear to be 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 should any new lawsuits be filed, such matters could result in substantial costs and a diversion of resources and management's attention.

The resale of shares of common stock issued to Hitachi, Ltd. ("Hitachi") in connection with our acquisition of HGST could adversely affect the market price of our common stock.

On March 8, 2012, as partial consideration for our acquisition of HGST, we issued 25 million shares of our common stock to Hitachi. On each of November 6, 2013 and November 13, 2014, Hitachi completed a secondary offering of 12.5 million and 6.25 million, respectively, of these shares. Future sales of the remaining 6.25 million shares of our common stock held by Hitachi could adversely affect the market price of our common stock.

Our cash balances and investment portfolio are subject to various risks, any of which could adversely impact our financial position.

Given the international footprint of our business, we have both domestic and international cash balances and investments. We maintain an investment portfolio of various holdings, security types, and maturities. These investments are subject to general credit, liquidity, market, political, sovereign and interest rate risks, which may be exacerbated by unusual events that affect global financial markets. A material part of our investment portfolio consists of U.S. government securities and bank deposits. If global credit and equity markets experience prolonged periods of decline, or if there is a downgrade of the U.S. government credit rating due to an actual or threatened default on government debt, our investment portfolio may be adversely impacted and we could determine that our investments may experience an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results. A failure of any of these financial institutions in which deposits exceed FDIC limits could also have an adverse impact on our financial position.

In addition, if we are unable to generate sufficient cash flows from operations to fund acquisitions, pay dividends, or repurchase shares of our common stock, we may choose or be required to increase our borrowings, if available, or to repatriate funds to the United States at a substantial tax cost.

If our internal controls are found to be ineffective, our stock price may be adversely affected.

Our most recent evaluation resulted in our conclusion that as of July 3, 2015, in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, our internal control over financial reporting was effective. If our internal control over financial reporting is found to be ineffective or if we identify a material weakness in our financial reporting in future periods, investors may lose confidence in the reliability of our financial statements, which may adversely affect our stock price.

Restrictive covenants in our credit agreement could restrict current and future operations or limit our flexibility to take certain actions.

Our credit agreement includes covenants relating to our financial performance and financial position. In addition, our credit agreement restricts our ability to take other actions with respect to our current and future operations, including our ability to

incur certain additional indebtedness or consolidate, merge or sell assets. Our ability to meet these restrictive covenants may be affected by events that could be beyond our control, and a breach of these restrictive covenants could result in an event of default under the credit agreement, which, if not cured or waived, could result in the indebtedness becoming immediately due and payable and could result in material adverse consequences that negatively impact our business.

From time to time we may become subject to income tax examinations or similar proceedings, and as a result we may incur additional costs and expenses or owe additional taxes, interest and penalties that may negatively impact our operating results.

We are subject to income taxes in the United States and certain foreign jurisdictions, and our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, as we have previously disclosed, we are under examination by the Internal Revenue Service for certain fiscal years and in connection with that examination, we received Notice of Proposed Adjustments seeking certain adjustments to income as disclosed in Part I, Item 1, Note 6 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Although we believe our tax positions are properly supported, the final timing and resolution of any tax examinations are subject to significant uncertainty and could result in our having to pay amounts to the applicable tax authority in order to resolve examination of our tax positions, which could result in an increase or decrease of our current estimate of unrecognized tax benefits and may negatively impact our financial position, results of operations or cash flows.

We are subject to risks associated with loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays that expire in whole or in part from time to time. Many of these holidays may be extended when certain conditions are met, or terminated if certain conditions are not met. If the tax holidays are not extended, or if we fail to satisfy the conditions of the reduced tax rate, then our effective tax rate could increase in the future. In addition, any actions by us to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes may impact our effective tax rate.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during the period covered by this report, other than as reported in our Current Report on Form 8-K filed with the SEC on September 30, 2015 about the Unis Investment.

Issuer Purchases of Equity Securities

The following table provides information about repurchases by us of shares of our common stock during the quarter ended October 2, 2015:

(in millions, except average price paid per share)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Program(1)	Maximum Value of Shares that May Yet be Purchased Under the Program(1)
Jul. 4, 2015—Jul. 31, 2015	0.2	$ 78.77	0.2	$ 2,184
Aug. 1, 2015—Aug. 28, 2015	0.5	$ 85.30	0.5	$ 2,164
Aug. 29, 2015—Oct. 2, 2015	—	$ —	—	$ 2,124
Total	0.7		0.7	$ 2,124

(1) Our Board of Directors previously authorized $5.0 billion for the repurchase of our common stock and approved the extension of our stock repurchase program to February 3, 2020. Repurchases under our stock repurchase program may be made in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan. Effective October 21, 2015, in connection with our planned acquisition of SanDisk, the stock repurchase program has been suspended.

Item 6. ***EXHIBITS***

The exhibits listed in the Exhibit Index (following the signature page of the Quarterly Report on Form 10-Q) are filed with, or incorporated by reference in, this Quarterly Report on Form 10-Q, as specified in the Exhibit List, from exhibits previously filed with the Securities and Exchange Commission. Certain agreements listed in the Exhibit List that we have filed or incorporated by reference may contain representations and warranties by us or our subsidiaries. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosures, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the actual state of affairs at the date hereof and should not be relied upon.

Exhibit Number	Description
2.1	Stock Purchase Agreement, dated as of September 29, 2015, by and among Unis Union Information System Ltd., Unisplendour Corporation Limited and Western Digital Corporation†
2.2	Agreement and Plan of Merger, dated as of October 21, 2015, among Western Digital Corporation, Schrader Acquisition Corporation and SanDisk Corporation (Filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on October 26, 2015)±
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Filed as Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q (File No. 1-08703) with the Securities and Exchange Commission on February 8, 2006)
3.2	Amended and Restated Bylaws of Western Digital Corporation, as amended effective as of November 14, 2013 (Filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on November 14, 2013)
10.1	Western Digital Corporation Incentive Compensation Plan, as Amended and Restated August 5, 2015 (Filed as Exhibit 10.1.8 to the Company’s Annual Report on Form 10-K (File No. 1-08703) with the Securities and Exchange Commission on August 21, 2015)*
10.2	Form of Notice of Grant of Performance Stock Units and Performance Stock Unit Award Agreement for Mark Long, dated September 17, 2015, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002††
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002††
101.INS	XBRL Instance Document†
101.SCH	XBRL Taxonomy Extension Schema Document†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document†

† Filed with this report.

† † Furnished with this report.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

± Certain schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally copies of any of the omitted schedules upon request by the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN DIGITAL CORPORATION
Registrant

/s/ OLIVIER C. LEONETTI

Olivier C. Leonetti
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: November 9, 2015

Execution Copy

STOCK PURCHASE AGREEMENT

by and among

Unis Union Information System Ltd.,

Unisplendour Corporation Limited

and

Western Digital Corporation

Dated as of September 29, 2015

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT, dated as of September 29, 2015 (this "Agreement"), is by and among Unis Union Information System Ltd., a Hong Kong corporation (the "Investor"), Unisplendour Corporation Limited, a Chinese corporation (the "Guarantor") and Western Digital Corporation, a Delaware corporation (the "Company").

W I T N E S S E T H:

WHEREAS, the Company desires to issue and sell to the Investor, and the Investor desires to purchase from the Company, pursuant to the terms and conditions set forth in this Agreement, the Shares (as defined below);

WHEREAS, in order to induce the Company to enter into this Agreement and the Investor Rights Agreement, the Guarantor is guaranteeing the obligations of the Investor hereunder and under the Investor Rights Agreement (as defined below); and

WHEREAS, in order to induce the Company to enter into this Agreement, Tsinghua Unigroup Co., Ltd., a Chinese corporation ("Unigroup") will provide the Guaranty (as defined below) in favor of the Company.

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, and intending to be legally bound, the Company, the Guarantor and the Investor hereby agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.01 Certain Defined Terms.

"13D Group" means any "group" within the meaning of Rule 13d-5 promulgated under the Exchange Act.

"Action" means any action, suit, proceeding, hearing, charge, complaint, claim, arbitration or investigation by or before any Governmental Entity.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such specified Person. Notwithstanding the foregoing, it is acknowledged and agreed that for purposes of this Agreement, (i) for purposes of determining whether a Person is an Affiliate of the Investor and/or the Guarantor, "Affiliates" of the Investor and the Guarantor shall include Unigroup and those Persons controlled directly or indirectly by Guarantor and/or Unigroup and shall not include any other Person controlling or under common control with Unigroup, and (ii) the Company, its officers, directors, agents, Subsidiaries and Persons that directly or indirectly control, are controlled by or are under common control with the Company, on the one hand, and the Investor, the Guarantor and their respective officers, directors, agents and subsidiaries, and respective persons that directly or indirectly control, are controlled by or are under common control with

the Investor and the Guarantor, on the other hand, shall not be considered Affiliates of each other as a result of the transactions contemplated by the Transaction Documents.

"Agreement" has the meaning set forth in the preamble, and shall include the Exhibits hereto and all amendments hereto made in accordance with the provisions hereof.

"Antitrust Laws" means the Sherman Act, the Clayton Act, the HSR Act, the Federal Trade Commission Act and all other federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

"Authorized Agent" has the meaning set forth in Section 9.12(d).

"Beneficial Ownership" shall refer to the concept of "beneficial ownership" in Rule 13d-3 promulgated under the Exchange Act.

"Board" or "Board of Directors" means the Board of Directors of the Company.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by Law to be closed in the city of New York, New York, Hong Kong or Beijing, China. In the event that any action is required or permitted to be taken under this Agreement on or by a date that is not a Business Day, such action may be taken on or by the Business Day immediately following such date.

"China" means the People's Republic of China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

"CFIUS" has the meaning set forth in Section 6.02(a).

"CFIUS Approval" means that the Investor, the Guarantor and the Company shall have received either of the following: (a) a written determination from CFIUS that the transactions contemplated by this Agreement are not subject to Exon-Florio; or (b)(1) a written confirmation from CFIUS of the completion of the review and, if applicable, investigation of the transactions contemplated by this Agreement and a written determination from CFIUS that there are no unresolved national security concerns with respect to the transactions contemplated by this Agreement, (2) the period of time for any applicable review under Exon-Florio shall have expired and the President of the United States shall not have taken action to block or prevent the consummation of the transactions contemplated by this Agreement, or (3) the President of the United States shall have provided written notice of his decision not to take such action.

"CFIUS Determination" has the meaning set forth in Section 6.02(b).

"CFIUS Filing" has the meaning set forth in Section 6.02(a).

"Closing" has the meaning set forth in Section 2.03.

"Closing Date" has the meaning set forth in Section 2.03.

"Common Stock" means the common stock, par value $0.01 per share, of the Company.

"Company" has the meaning set forth in the preamble.

"Confidentiality Agreement" means that certain Confidentiality Agreement, between the Guarantor and the Company, dated as of August 26, 2015.

"control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of securities, contract or otherwise.

"Equity Securities" means any capital stock or other equity interests of the Company, any securities convertible into, exercisable for or exchangeable for capital stock or other equity interests of the Company, and any other rights, warrants, options or other instruments representing the right to acquire any of the foregoing securities.

"Exchange Act" means the Securities Exchange Act of 1934.

"Exon-Florio" means the Exon-Florio Statute, Section 721 of the Defense Production Act of 1950, 50 U.S.C. app. § 2170, as amended and the implementing regulations pursuant thereto.

"Future Transaction" has the meaning set forth in Section 6.05(b).

"Future Transaction Impediments" has the meaning set forth in Section 6.05(b).

"GAAP" means United States generally accepted accounting principles in effect from time to time.

"Governmental Approvals" has the meaning set forth in Section 5.03(a).

"Governmental Entity" means any supranational, foreign, domestic, federal, territorial, provincial, regional, state, county, city, township or other local governmental authority, or any regulatory, self-regulatory, administrative or other agency, instrumentality, court, government organization, quasi-governmental organization, mediator, arbitrator or arbitral forum (whether public or private), commission, tribunal thereof, or any political or other subdivision, department or branch of any of the foregoing, or any private body exercising any tax, regulatory or governmental or quasi-governmental authority, or any securities exchange.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Entity with competent jurisdiction.

"Guaranteed Obligations" has the meaning set forth in Section 3.01.

“Guarantor” has the meaning set forth in the preamble.

“Guaranty” means a Guaranty by Unigroup in favor of the Company with respect to certain of the Guarantor’s and Investor’s obligations under this Agreement in the form attached hereto as Exhibit B.

“Holdings” means Tsinghua Holdings Co., Ltd, a Chinese company.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

“Impediment” means, with respect to any Person, any term, condition, limitation or restriction of any type or nature that would reasonably be expected to prohibit, limit, restrain or impair, in any material respect, such Person’s or any of its Affiliates’ ability to control, direct, manage or operate, or exercise full rights of ownership with respect to, its respective assets, licenses, product lines, businesses or interests therein (including, with respect to the Investor, its ownership of interests in the Company after the Closing).

“Investor” has the meaning set forth in the preamble.

“Investor Rights Agreement” means an Investor Rights Agreement among the Company, the Guarantor and the Investor in the form attached hereto as Exhibit A.

“Law” means any statute, law, ordinance, regulation, rule, code, order, or rule of law (including common law) of any Governmental Entity, and any judicial or administrative interpretation thereof, including any Governmental Order.

“Material Adverse Effect” means any event, condition, change, effect, state of facts, circumstance, omission or occurrence that, individually or together with any other event, condition, change, effect, state of facts, circumstance, omission or occurrence, has had, or would reasonably be expected to have, a material adverse effect or material adverse change on the assets, liabilities, properties, business, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole; except to the extent due to (i) changes that adversely affect either the United States or global economy generally or the industry in which the Company and its Subsidiaries operate; (ii) the announcement, pendency or consummation of the transactions contemplated by the Transaction Documents; (iii) any decrease in the market price or trading volume of the Common Stock (provided that it is understood and agreed that the facts and circumstances giving rise to the decrease in the market price or trading volume of the Common Stock may be taken into account in determining whether there has been, or could reasonably be expected to be, a Material Adverse Effect unless such facts and circumstances would otherwise be excepted from this definition); (iv) any failure to meet published analyst estimates of revenue, earnings or results of operations or failure to meet internal budgets, projects or forecasts of revenue, earnings or other financial performance or results of operations (provided that it is understood and agreed that the facts and circumstances giving rise to or contributing to any such failure may be taken into account in determining whether there has been, or could reasonably be expected to be, a Material Adverse Effect unless such facts and

circumstances would otherwise be excepted from this definition); (v) acts of war or terrorism; (vi) any changes in GAAP, changes in the interpretation of GAAP, or changes in any Laws; or (vii) the performance of this Agreement (including compliance with the covenants herein) except, in the case of (i), (v) or (vi) to the extent such event, condition, change, effect, state of facts, circumstance, omission or occurrence disproportionately affects the Company and its Subsidiaries, taken as a whole, as compared to other companies in the industry in which the Company and its Subsidiaries operate.

"MOE" means the Ministry of Education of the People's Republic of China or its competent local counterpart.

"MOE Registration" has the meaning set forth in Section 7.01(g).

"MOFCOM" means the Ministry of Commerce of the People's Republic of China or its competent local counterpart.

"MOFCOM Registration" has the meaning set forth in Section 7.01(d).

"Nasdaq" means the Nasdaq Stock Market.

"NDRC" means the National Development and Reform Commission of the People's Republic of China.

"NDRC Registration" has the meaning set forth in Section 7.01(e).

"Necessary Stockholder Approval" has the meaning set forth in Section 5.01(b).

"Person" means any individual, sole proprietorship, partnership, limited liability company, corporation, association, joint stock company, trust, joint venture, unincorporated organization, any other business organization or entity or Governmental Entity.

"Purchase Price" has the meaning set forth in Section 2.02.

"Restricted Entity List" means that certain restricted entity list delivered to the Investor pursuant to this Agreement.

"SAFE" means the State Administration of Foreign Exchange of the People's Republic of China, its Beijing local counterpart.

"SAFE Registration" has the meaning set forth in Section 7.01(f).

"SEC" means the U.S. Securities and Exchange Commission.

"SEC Reports" has the meaning set forth in Section 4.06.

"Securities Act" means the Securities Act of 1933.

"Shares" means the 40,814,802 shares of Common Stock to be issued pursuant to this Agreement, as adjusted pursuant to Section 2.07 (if applicable).

"Subsidiary" means, when used with reference to the Company, any other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions, or a majority of the outstanding voting securities of which, are owned directly or indirectly by the Company.

"Transaction Discussions" has the meaning set forth in Section 6.05(c).

"Transaction Documents" means this Agreement and the Investor Rights Agreement, and where applicable, the Guaranty.

"Unigroup" has the meaning set forth in the recitals.

Section 1.02 Interpretation and Rules of Construction. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a section (or article, subsection, paragraph, subparagraph or clause), such reference shall be to a Section (or article, subsection, paragraph, subparagraph or clause) of, or an exhibit or schedule to, this Agreement. The table of contents and any article, section, subsection, paragraph or subparagraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any reference made in this Agreement to a statute or statutory provision shall mean such statute or statutory provision as it has been amended through the date as of which the particular portion of the Agreement is to take effect, or to any successor statute or statutory provision relating to the same subject as the statutory provision so referred to in this Agreement, and to any then applicable rules or regulations promulgated thereunder. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed, as the context indicates, to be followed by the words "but (is/are) not limited to." The words "herein," "hereof," "hereunder" and words of like import shall refer to this Agreement as a whole, unless the context clearly indicates to the contrary. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context indicates is appropriate. Where specific language is used to clarify or illustrate by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict the construction of the general statement which is being clarified or illustrated.

ARTICLE II
PURCHASE AND SALE

Section 2.01 Purchase and Sale. Subject to the terms and conditions set forth herein, at the Closing, the Company shall issue to the Investor, and the Investor shall purchase, accept and acquire from the Company, the Shares.

Section 2.02 Purchase Price. The purchase price shall be $92.50 per Share, or $3,775,369,185.00 in the aggregate (the "Purchase Price").

Section 2.03 Closing. Unless this Agreement shall have been terminated pursuant to Article VIII, the closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Cleary Gottlieb Steen & Hamilton LLP, One Liberty Plaza, New York, NY 10006 (including by electronic transmission) on the date that is three (3) Business Days following the satisfaction or waiver of all conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) or at such other time, date and place as shall be mutually agreed by the parties (the "Closing Date").

Section 2.04 Closing Deliveries by the Company. At the Closing, the Company shall deliver or cause to be delivered to the Investor or its designated custodian:

(a) a certificate or certificates or, at the election of the Investor, appropriate evidence of a book-entry transfer representing the Shares registered in the name of the Investor;

(b) the officer's certificate contemplated in Section 7.03(c);

(c) a true and complete copy, certified by the Secretary or an Assistant Secretary of the Company, without incurring personal liability, of the resolutions duly and validly adopted by the Board of Directors evidencing its authorization of the execution and delivery of the Transaction Documents and the consummation of the transactions contemplated hereby and thereby; and

(d) the Investor Rights Agreement, duly executed by the Company.

Section 2.05 Closing Deliveries by the Investor. At the Closing, the Investor shall deliver to the Company:

(a) the Purchase Price without any deduction or setoff of any kind, by wire transfer in immediately available funds to a bank account in the United States to be designated by the Company at least three (3) Business Days prior to the Closing in a written notice to the Investor prior to the Closing;

(b) the officer's certificate contemplated in Section 7.02(c);

(c) a true and complete copy, certified by an authorized representative of the Investor, without personal liability, of the resolutions duly and validly adopted by the Investor evidencing the Investor's authorization of the execution and delivery of the Transaction Documents and the consummation of the transactions contemplated hereby and thereby; and

(d) the Investor Rights Agreement, duly executed by the Investor.

Section 2.06 Closing Deliveries by the Guarantor. At the Closing, the Guarantor shall deliver to the Company:

(a) a true and complete copy, certified by an authorized representative of the Guarantor, without personal liability, of the resolutions duly and validly adopted by the Guarantor evidencing the Guarantor's authorization of the execution and delivery of the Transaction Documents and the consummation of the transactions contemplated hereby and thereby; and

(b) the Investor Rights Agreement, duly executed by the Guarantor.

Section 2.07 Adjustments to Shares and/or Purchase Price. The number of Shares and/or type of securities to be issued to the Investor under this Agreement, and/or the Purchase Price, shall be adjusted appropriately to reflect the effect of (i) any stock split, reverse stock split, reclassification, subdivision, combination, spin off, split off, exchange or conversion of shares or other like change with respect to Common Stock, (ii) any shares of Common Stock or other securities issued as a dividend or other distribution with respect to, such shares of Common Stock, or (iii) any cash dividend in respect of the Common Stock, other than regular quarterly cash dividends in an amount not exceeding $1.00 per share, in each case occurring on or after the date hereof and prior to the Closing.

ARTICLE III
GUARANTEE

Section 3.01 Guarantees of Guarantor. The Guarantor is executing this Agreement to guarantee the payment and performance (as applicable) by the Investor of its obligations for payment or performance under this Agreement when due (the "Guaranteed Obligations"). The Guarantor hereby guarantees irrevocably and unconditionally and as a primary obligation the Guaranteed Obligations. If the Investor fails or refuses to pay or perform (as applicable) any such Guaranteed Obligations when due for payment or performance in accordance with this Agreement, the Guarantor shall, upon the written request of the Company, immediately pay or perform, as applicable, such Guaranteed Obligations. This guarantee shall apply regardless of any amendments, variations, alterations, waivers or extensions to this Agreement, whether or not the Guarantor received notice of the same and the Guarantor waives all need for notice of the same.

Section 3.02 Guarantee Unconditional. The guarantee made by the Guarantor pursuant to this Article III is a guarantee of payment and performance and not of collection. The obligations of the Guarantor hereunder shall be continuing, absolute and unconditional and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by: (a) any invalidity, illegality or unenforceability against the Investor of this Agreement due to the lack of power or authority of the Investor to enter into or perform this Agreement or as a result of

the bankruptcy, insolvency, dissolution, liquidation or reorganization or similar event affecting the Investor; (b) any modification, amendment, restatement, waiver by the Investor or rescission of, or any consent to the departure by the Investor from, any of the terms of this Agreement; (c) any exercise or non-exercise by the Company of any right or privilege under this Agreement and any notice of such exercise or non-exercise; (d) any extension, renewal or waiver by the Investor of any of its obligations or liabilities under this Agreement, by operation of Law or otherwise, or any assignment of any such obligations or liabilities by the Company; (e) any change in the corporate existence, structure or ownership of the Investor; (f) any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Investor or its assets or any resulting release or discharge of the Investor's obligations or liabilities under this Agreement; (g) any requirement that the Company exhaust any right or remedy or take any action against the Investor or any other Person before seeking to enforce the obligations of the Guarantor under this Article III; (h) the existence of any defense, set-off or other rights that the Guarantor may have at any time against the Company or any other Person, whether in connection herewith or any unrelated transactions; or (i) any other suretyship defenses available to a guarantor.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

As an inducement to the Investor and the Guarantor to enter into this Agreement, the Company hereby represents and warrants to the Investor and the Guarantor as of the date hereof and the Closing Date, that:

Section 4.01 Organization; Authorization; Enforceability.

(a) The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. Except as has not had or would not be reasonably expected to have a Material Adverse Effect, the Company has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties, or conducts any business so as to require such qualification. Each Subsidiary of the Company has been duly organized and, except as has not or would not be reasonably expected to have a Material Adverse Effect, is validly existing and in good standing under the laws of its jurisdiction of organization.

(b) The Company has all requisite power and authority to enter into the Transaction Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated by this Agreement and thereby. All necessary corporate action has been taken to authorize the execution, delivery and performance of the Transaction Documents and no further approval or authorization is required on the part of the Company or its stockholders.

(c) The Company, except as has not had or would not be reasonably expected to have a Material Adverse Effect, has requisite corporate power and authority to own its properties and conduct its business as currently conducted.

(d) This Agreement has been duly executed by the Company and is, and the Investor Rights Agreement (excluding Section 5.06 thereof, as to which the Company expresses no view), when duly executed and delivered at or prior to the Closing by the Company will (assuming the Investor and the Guarantor have satisfied those legal requirements that are applicable to it to the extent necessary to make this Agreement and the Investor Rights Agreement enforceable against it) be, the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with their respective terms, except as enforceability of such objections may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws now or hereafter in effect relating to or limiting creditors' rights or remedies generally and general principles of equity relating to the availability of specific performance and injunctive and other forms of equitable relief.

Section 4.02 Capitalization.

(a) The authorized capital stock of the Company consists of (a) 5,000,000 shares of preferred stock, par value $0.01 per share, and (b) 450,000,000 shares of Common Stock. As of the close of business on September 25, 2015, no shares of the Company's preferred stock were issued and outstanding or held in treasury, and 231,602,917 shares of Common Stock were issued and outstanding and 29,735,698 shares of Common Stock were held in treasury. As of the close of business on September 25, 2015, there were outstanding options to purchase an aggregate of 7,813,632 shares of Common Stock. As of the close of business on September 25, 2015, the Company had reserved an aggregate of 18,390,245 shares of Common Stock for issuance pursuant to the Company's employee benefit plans (including shares issued in respect of awards and shares subject to outstanding awards). All issued shares of Common Stock have been duly authorized and are validly issued, fully paid and are non-assessable and are not subject to and were not issued in violation of any preemptive rights. Except as set forth above, as of the close of business on September 25, 2015, the Company did not have outstanding any securities providing the holder the right to acquire Common Stock, and did not have any commitment to authorize, issue or sell any Common Stock.

(b) Except as set forth in Section 4.02(a), as of the close of business on September 25, 2015, there were no outstanding subscriptions, options, warrants, calls, convertible securities or other similar rights, agreements or commitments relating to the issuance of capital stock to which the Company or any Subsidiary is a party obligating the Company to (i) issue, transfer or sell any shares of capital stock or other Equity Securities, (ii) grant, extend or enter into any such subscription, option, warrant, call, convertible securities or other similar right, agreement or arrangement, or (iii) redeem or otherwise acquire any such shares of capital stock or other Equity Securities. There is no stockholder agreement, voting trust or other agreement or understanding to which the Company is a party relating to the voting, purchase, transfer or registration of the Common Stock. At the Closing, the Investor will acquire good and marketable title to the Shares, free and clear of any lien, security interest or encumbrance or any nature, claim, license, option (including

rights of first refusal or similar rights) or any similar types of restrictions or limitations other than encumbrances created by the Investor or the Guarantor, together with all rights and benefits attaching thereto as at the Closing Date.

Section 4.03 No Violation. Neither the execution and delivery of the Transaction Documents nor the consummation of the transactions contemplated hereby or thereby (with or without the passage of time or the giving of notice, or both) will (a) contravene, violate, breach or be in conflict with any provisions of the Company's certificate of incorporation or bylaws; (b) with or without the giving of notice or passage of time, or both, violate, be in conflict with or constitute a default (or give rise to any right of termination, amendment, cancellation or acceleration) under any of the terms, conditions or provisions of any material contract to which the Company or any of its Subsidiaries is a party or by which the Company or any Subsidiary or any of their assets may be bound; or (c) violate or conflict with any Laws to which the Company or any of its Subsidiaries is subject, except in the cases of (b) and (c) above, for any such conflicts, violations, breaches, defaults or other occurrences which have not had and do not constitute a Material Adverse Effect.

Section 4.04 Governmental and Other Approvals.

(a) Assuming the accuracy of the Investor's and the Guarantor's representations and warranties set forth in Section 5.03 hereof, except for compliance with the HSR Act, other applicable Antitrust Laws and the CFIUS Approval, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be made or obtained by the Company other than with respect to the filing of a notice of listing of additional shares with Nasdaq and such as may be required under the blue sky or similar laws of any jurisdiction in connection with the execution, delivery and performance of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except those the failure of which would not, individually or in the aggregate, have or reasonably be expected to have a material adverse effect on the ability of the Company to consummate the transactions contemplated by the Transaction Documents.

(b) No consent, approval or authorization of, or notice to any counterparty to any contract of the Company of any of its Subsidiaries must be made or obtained by the Company of any of its Subsidiaries in connection with the execution, delivery and performance of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except where the failure to make or obtain such consent, approval, authorization or notice has not had and does not constitute a Material Adverse Effect and could not reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in the Transaction Documents.

Section 4.05 Authorization of the Shares. Prior to issuance, the Shares will be duly authorized for issuance and sale to the Investor pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set

forth herein, will be validly issued, fully paid and non-assessable. The issuance of the Shares pursuant to this Agreement is not subject to preemptive or other similar rights of any securityholder of the Company.

Section 4.06 Reports; SEC Filings. The Company has filed all forms, reports, statements (including proxy statements) and other documents (such filings by the Company are collectively referred to as the "SEC Reports"), required to be filed by it with the SEC on a timely basis since August 16, 2014. The SEC Reports filed on or after August 16, 2014 (i) were prepared in all material respects in accordance with the requirements of the Act and the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such SEC Reports at the time of filing thereof and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each of the consolidated balance sheets included in or incorporated by reference into such SEC Reports (including the related notes and schedules) presented fairly in all material respects the consolidated financial position of the Company and its Subsidiaries as of its date, and each of the consolidated statements of income and of cash flows included in or incorporated by reference into such SEC Reports (including any related notes and schedules) presented fairly in all material respects the results of operations, and changes in financial position, income or cash flows, as the case may be, of the Company and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to the omission of certain notes not ordinarily accompanying such unaudited financial statements and to normal, year-end audit adjustments, none of which is material), in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except as may be noted therein.

Section 4.07 Absence of Proceedings. As of the date hereof, there is no Action before or brought by any Governmental Entity, now pending or, to the knowledge of the Company, threatened against or affecting the Company, which would, individually or in the aggregate, reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in the Transaction Documents or the performance by the Company of its obligations hereunder or thereunder.

Section 4.08 No Material Adverse Effect. Since July 3, 2015, there has not been any event, condition, change, effect, state of facts, circumstance, omission or occurrence that, individually or in the aggregate, has had a Material Adverse Effect.

Section 4.09 No Broker's Fees. Neither the Company nor any Subsidiaries is a party to any contract, agreement or understanding with any Person that would give rise to a claim against the Investor for a brokerage commission, finder's fee or like payment in connection with the issuance and sale of the Shares.

Section 4.10 No Additional Representations. The Company hereby acknowledges and accepts the statements and disclaimers set forth in Section 5.10. Neither the Company nor any other Person is making any representation or warranty on behalf of the Company of any kind or nature whatsoever, oral or written, express or implied (including but not limited to, any representation or warranty relating to financial condition, results of operations, assets or liabilities of the Company and its Subsidiaries), except as expressly set forth in this Article IV, and the Company hereby disclaims any such other representations and warranties.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE INVESTOR AND THE GUARANTOR

As an inducement to the Company to enter into this Agreement, each of the Investor and the Guarantor, hereby represents and warrants to the Company as of the date hereof and the Closing Date as follows:

Section 5.01 Organization; Authorization; Enforceability.

(a) Each of the Investor and the Guarantor has been duly organized and is validly existing and in good standing under the Law of its jurisdiction of organization.

(b) Each of the Investor and the Guarantor has all requisite power and authority to enter into the Transaction Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated by this Agreement and thereby as applicable, subject, in the case of the consummation of the purchase of the Shares contemplated hereby by Investor, to receipt of the approval thereof by 66 2/3% of the common shares of the Guarantor present and voting at a duly called meeting of the stockholders of the Guarantor (the "Necessary Stockholder Approval"). All necessary corporate action has been taken or will be taken in accordance with the Transaction Documents to authorize the execution, delivery and performance of the Transaction Documents by the Investor and the Guarantor and, subject to the receipt of the Necessary Stockholder Approval, the consummation of the purchase of the Shares contemplated hereby by Investor.

(c) This Agreement has been duly executed by each of the Investor and the Guarantor, and the Investor Rights Agreement (excluding Section 5.06 thereof, as to which the Investor and Guarantor express no view), when duly executed and delivered at or prior to the Closing by the Investor will (assuming the Company has satisfied those legal requirements that are applicable to it to the extent necessary to make this Agreement and the Investor Rights Agreement enforceable against it) be, the legal, valid and binding obligation of the Investor and the Guarantor, enforceable against the Investor and the Guarantor in accordance with their respective terms, except as enforceability of such objections may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws now or hereafter in effect relating to or limiting

creditors' rights or remedies generally and general principles of equity relating to the availability of specific performance and injunctive and other forms of equitable relief.

Section 5.02 No Violation. Assuming receipt of the Necessary Stockholder Approval, neither the execution and delivery of the Transaction Documents nor the consummation of the transactions contemplated hereby or thereby (with or without the passage of time or the giving of notice, or both) will (a) contravene, violate, breach or be in conflict with any provisions of the Investor's or the Guarantor's organizational documents or any other governing documents; (b) with or without the giving of notice or passage of time, or both, violate, be in conflict with or constitute a default (or give rise to any right of termination, amendment, cancellation or acceleration) under any of the terms, conditions or provisions of any material contract to which the Investor, the Guarantor or any of their respective Affiliates is a party or by which the Investor, the Guarantor or any of their respective Affiliates or any of their assets may be bound; or (c) assuming compliance with, and the receipt of all consents, authorizations, approvals or waiting period expirations or terminations under, the Governmental Approvals, violate or conflict with any Laws to which the Investor, the Guarantor or any of their respective Affiliates is subject, except in the cases of (b) and (c) above, for any such conflicts, violations, breaches, defaults or other occurrences which could not reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in the Transaction Documents.

Section 5.03 Governmental and Other Approvals.

(a) Assuming the accuracy of the representations and warranties of the Company set forth in Section 4.04, and except for compliance with the HSR Act, other applicable Antitrust Laws, the CFIUS Approval, obtaining of the MOFCOM Registration, the NDRC Registration, the SAFE Registration and the MOE Registration (together with the consents, approvals or authorizations, declarations, filings and registrations listed in Section 4.04(a), the "Governmental Approvals"), no approval or authorization of, or declaration, filing or registration with, any Governmental Entity is required to be made or obtained by it in connection with the execution, delivery and performance of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except those the failure of which would not, individually or in the aggregate, have or reasonably be expected to have a material adverse effect on the ability of the Investor or the Guarantor, as applicable, to consummate the transactions contemplated by the Transaction Documents.

(b) The Guarantor has received a written confirmation (□□□) from the NDRC that confirms the receipt of the pre-signing report to the NDRC submitted by the Guarantor for the transactions contemplated by the Transaction Documents.

(c) No consent, approval or authorization of, or notice to any counterparty to any material contract of the Investor, the Guarantor or any of their respective Affiliates must be made or obtained by the Investor, the Guarantor or any of their respective Affiliates

in connection with the execution, delivery and performance of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, except where the failure to make or obtain such consent, approval, authorization or notice could not reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in the Transaction Documents.

Section 5.04 Absence of Proceedings. As of the date of this Agreement, there is no Action before or brought by any Governmental Entity, now pending or, to the knowledge of the Investor or the Guarantor, threatened against or affecting the Investor or the Guarantor, which would, individually or in the aggregate, reasonably be expected to materially and adversely affect the consummation of the transactions contemplated in the Transaction Documents or the performance by the Investor or the Guarantor of their obligations hereunder or thereunder.

Section 5.05 Sufficient Funds. The Investor has sufficient funds on hand or, at the Closing will have sufficient funds on hand, in each case, in United States (U.S.) dollars to pay in full the Purchase Price in accordance with the Transaction Documents. The Guarantor has sufficient funds on hand or, at the Closing will have sufficient funds on hand, in each case, in United States (U.S.) dollars to satisfy the Guaranteed Obligations with respect to the payment in full of the Purchase Price in accordance with the Transaction Documents.

Section 5.06 Investment Representations.

(a) Each of the Investor and the Guarantor acknowledge that:

(i) the Common Stock is listed on Nasdaq and the Company is required to file reports containing certain business and financial information with the SEC and may be required to file a copy of the Transaction Documents with the SEC, pursuant to the reporting requirements of the Exchange Act and that it is able to obtain copies of such reports;

(ii) without limiting any provisions set forth under the Investor Rights Agreement, the Shares are subject to resale restrictions under applicable securities Law;

(iii) without limiting any provisions set forth under the Investor Rights Agreement, the certificates or book-entry position representing the Shares will bear or reflect, as applicable, legends substantially similar to the following:

“THIS SECURITY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR

OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) PURSUANT TO ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING RULE 144 OR REGULATION S UNDER THE SECURITIES ACT (IF AVAILABLE), (II) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (III) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, IN EACH OF CASES (I) THROUGH (III) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. THE COMPANY MAY REQUIRE THE DELIVERY OF A WRITTEN OPINION OF COUNSEL, CERTIFICATIONS AND/OR ANY OTHER INFORMATION IT REASONABLY REQUIRES TO CONFIRM THE SECURITIES ACT EXEMPTION FOR SUCH TRANSACTION WITH RESPECT TO ANY TRANSFER PURSUANT TO (I) OR (III) ABOVE.";

(iv) in addition, for so long as a holder of Shares is subject to transfer restrictions contained in the Investor Rights Agreement, the certificates or book-entry position representing such holder's Shares will bear or reflect a legend substantially similar to the following:

"THIS SECURITY IS SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN AN INVESTOR RIGHTS AGREEMENT, DATED [ ], AMONG THE COMPANY AND CERTAIN OTHER PARTIES THERETO.";

(v) the Shares have not been registered under the Securities Act and may not be offered or sold except pursuant to registration or to an exemption from the registration requirements of the Securities Act; and

(vi) the Investor is sufficiently experienced in financial and business matters to be capable of evaluating the merits and risks involved in purchasing the Shares and to make an informed decision relating thereto.

(b) The Investor is purchasing the Shares for investment purposes only, and not in a transaction or series of transactions involving a purchase and sale or a repurchase and resale in the course of or incidental to a distribution. The Investor is an "accredited investor" (as

such term is defined in Rule 501 of Regulation D under the Securities Act). The Investor has not been provided with an offering memorandum or any similar document in connection with its subscription for the Shares. As of the date of this Agreement, none of the Investor, the Guarantor or any of their respective Affiliates beneficially owns any Common Stock or any other Equity Securities.

Section 5.07 No Broker's Fees. Neither the Investor, the Guarantor nor any of their respective Affiliates is a party to any contract, agreement or understanding with any Person that would give rise to a claim against the Company for a brokerage commission, finder's fee or like payment in connection with the issuance and sale of the Shares.

Section 5.08 No Additional Representations. The Investor and the Guarantor hereby acknowledge and accept the statements and disclaimers set forth in Section 4.10. The Investor and the Guarantor are sophisticated purchasers and have conducted their own investigation, review and analysis regarding the Company and its Subsidiaries and the transactions contemplated by the Transaction Documents. Neither the Investor nor the Guarantor has relied nor are they relying on any information, documents or materials made available to the Investor, the Guarantor, their respective Affiliates or their respective advisors, whether orally or in writing, in any confidential information memoranda, "datarooms," management presentations, due diligence materials, discussions or presentations, regardless of form, or on any statement, representation or warranty, express or implied, oral or written, made by the Company, its Subsidiaries or any of their respective advisors, except for the representations and warranties of the Company expressly set forth in Article IV of this Agreement. None of the Company, its Subsidiaries or any of their respective advisors is making, or has made, directly or indirectly, express or implied, any representation or warranty with respect to any estimates, projections or forecasts involving the Company or its Subsidiaries. Each of the Investor and the Guarantor acknowledges that there are inherent uncertainties in attempting to make such estimates, projections and forecasts and that, to the extent that any such estimates, projections or forecasts were made available to the Investor, the Guarantor, their respective Affiliates or their respective advisors, the Investor takes full responsibility for making its own independent evaluation of the adequacy and accuracy of any such estimates, projections or forecasts (including the reasonableness of the assumptions underlying any such estimates, projections and forecasts). Nothing in this Section 5.08 shall be construed as a waiver of any rights or claims that the Investor or the Guarantor may have in respect of fraud with respect to the express terms and conditions set forth in this Agreement or may have under applicable United States federal or other securities Laws.

Section 5.09 Sovereign Immunity. Neither the Investor nor the Guarantor is entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Agreement at any time brought against the Investor or Guarantor, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding,

from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise.

Section 5.10 No Additional Representations. Neither the Investor, the Guarantor nor any other Person is making any representation or warranty on behalf of the Investor or the Guarantor of any kind or nature whatsoever, oral or written, express or implied, except as expressly set forth in this Article V, and the Company hereby disclaims any such other representations and warranties.

ARTICLE VI
ADDITIONAL AGREEMENTS

Section 6.01 Regulatory Approvals; Commercially Reasonable Efforts.

(a) Subject to the terms and conditions of this Agreement, each of the Investor, the Guarantor and the Company shall use their respective reasonable best efforts, on a cooperative basis, to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Law to consummate the transactions contemplated by the Transaction Documents as soon as reasonably practicable, including using their respective reasonable best efforts to obtain and maintain all necessary actions or nonactions, waivers, waiting period expirations or terminations, consents and approvals, including the Governmental Approvals, from Governmental Entities, and the making of all necessary registrations and filings and the taking of all steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity; provided, however, that notwithstanding any provision of this Agreement (other than, to the extent applicable, Section 6.05), no party shall have any obligation to offer or agree to any commitment or arrangement, or any term, condition, limitation or restriction of any type or nature, that would reasonably be expected to constitute or result in any Impediment with respect to such party or any of its Affiliates. It is acknowledged and agreed that the Investor and the Guarantor shall solely (as between the Investor and the Guarantor, on the one hand, and the Company, on the other hand) be responsible for applying for the MOFCOM Registration (if applicable), the NDRC Registration, the SAFE Registration (if applicable) and the MOE Registration (if applicable), and to seek to fulfill the conditions set forth in Sections 7.01(d), (e), (f) and (g), including submitting and supplementing all necessary documents to the MOFCOM, NDRC, SAFE and MOE and answering any inquiries from such authorities; provided, further that Investor shall keep the Company reasonably informed on a regular and reasonably prompt basis regarding the status of its submissions to, application for the MOFCOM Registration, NDRC Registration, SAFE Registration and MOE Registration and its efforts to satisfy the conditions set forth in Sections 7.01(d), (e), (f) and (g), will promptly inform the Company whenever it receives any material communication from or submits any material communication to such authorities and will promptly provide the Company with copies of any such written communications, and upon

reasonable request of the Company, will discuss with the Company and respond to the Company's queries regarding the matters referenced in this Section 6.01.

(b) Each of the Investor, the Guarantor and the Company shall cooperate in the determination of which registrations, filings, and Governmental Approvals are necessary to consummate the transactions contemplated by the Transaction Documents and the preparation of any such registrations or filings or such applications for the Governmental Approvals and any other orders, clearances, consents, notices, rulings, exemptions, certificates, no-action letters and approvals reasonably deemed by either the Investor and the Guarantor, on the one hand, or the Company, on the other hand, to be necessary to discharge their respective obligations under the Transaction Documents or otherwise advisable under applicable Law in connection with the transactions contemplated by the Transaction Documents.

(c) Notwithstanding anything to the contrary in the Transaction Documents (other than, to the extent applicable, Section 6.05 of this Agreement), no party shall have any obligation to offer or agree to any commitment or arrangement with any Governmental Entity that would require it or any of its Affiliates at any time to (i) hold separate or divest any of its or its Affiliates' respective businesses, or any of its or its Affiliates' respective equity holdings, assets or operations, (ii) enter into any consent decree, settlement, licensing or any other agreement with respect to any of its or its Affiliates' respective businesses or any of its or its Affiliates' respective equity holdings, assets or operations, or (iii) defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging any of the Transaction Documents or the consummation of the transactions contemplated by the Transaction Documents.

(d) Each party will notify the others promptly upon the receipt of (i) any comments or questions from any Governmental Entity in connection with any Governmental Approvals or the transactions contemplated by this Agreement and (ii) any request by any Governmental Entity for amendments or supplements to any filings made pursuant to any Laws of any Governmental Entity or answers to any questions, or the production of any documents, relating to an investigation of the transactions contemplated by this Agreement by any Governmental Entity. Without limiting the generality of the foregoing and subject to applicable Law or restrictions required by the concerned Governmental Entities, each party shall provide to the other (or the other's respective advisors) upon request copies of all correspondence between such party and any Governmental Entity relating to the transactions contemplated by this Agreement. The parties may, as they deem advisable and necessary, designate any competitively sensitive materials or information or materials regarding government contracts or services provided to the other under this Section 6.01 as "outside counsel only." Such materials and the information contained therein shall be given only to outside counsel of the recipient and will not be disclosed by such outside counsel to employees, officers, or directors of the recipient without the advance written consent of the party providing such materials. Subject to applicable Law or restrictions required by the concerned Governmental Entities, the parties will consult and cooperate with each other in connection with

any analyses, appearances, presentations, memoranda, briefs, arguments, and proposals made or submitted to any Governmental Entity regarding the transactions contemplated by this Agreement by or on behalf of any party.

Section 6.02 CFIUS Review.

(a) As soon as practicable after the date hereof, the Investor, the Guarantor and the Company shall prepare, prefile and file with the Committee on Foreign Investment in the United States ("CFIUS") a joint voluntary notice pursuant to Exon-Florio of the transactions contemplated hereby (the "CFIUS Filing"). The Investor, the Guarantor and the Company shall each, to their fullest ability, provide CFIUS with any additional or supplemental information requested by CFIUS or its member agencies within three (3) Business Days of receiving such request, or such longer period as permitted by CFIUS, during the Exon-Florio review process. Subject to the terms and conditions of this Agreement, the Investor, the Guarantor and the Company shall, on a cooperative basis, use their respective reasonable best efforts to take all steps advisable, necessary or desirable to finally and successfully complete the Exon-Florio review process as promptly as practicable and to make any and all commercially reasonable undertakings necessary to obtain the CFIUS Approval prior to February 29, 2016; provided, however, that notwithstanding any provision of this Agreement, no party shall have any obligation to offer or agree to any commitment or arrangement or any term, condition, limitation or restriction of any type or nature that would reasonably be expected to constitute or result in any Impediment with respect to such party or any of its Affiliates.

(b) Without limiting the foregoing, the Investor, the Guarantor and the Company shall, on a cooperative basis and subject to the terms and conditions of this Agreement, use their respective reasonable best efforts to take all steps advisable, necessary and desirable to obtain a written determination by CFIUS that the transactions contemplated by this Agreement are not subject to Exon-Florio (the "CFIUS Determination"); provided that notwithstanding the foregoing, neither the Investor nor the Guarantor shall be required to offer or agree to any changes to or limitations of the Investor's rights under the Transaction Documents (including the Investor Rights Agreement). If, upon the conclusion of the 30-day Exon-Florio review period (including any additional 30-day Exon-Florio review period resulting from the parties' mutual agreement, and permission from CFIUS, to withdraw and re-submit the CFIUS Filing), the parties have failed to obtain the CFIUS Determination, then each of the Investor and the Company shall have the right to terminate this Agreement upon written notice to the other; provided that such notice of termination must be delivered by the terminating party to the other party in accordance with Section 9.09 no later than fifteen (15) days following the conclusion of such 30-day Exon-Florio review period. In the event neither the Investor nor the Company shall terminate this Agreement during such fifteen (15) day period, such termination right shall be null and void and of no force or effect.

Section 6.03 Securities Law Filings.

(a) The Investor and the Guarantor shall timely file all forms, reports and documents required to be filed by each with the SEC (including filing any required statements of beneficial ownership on Schedule 13D or Schedule 13G and such filings as may be required under Section 16 of the Exchange Act).

(b) Subject to applicable Law, the Company and the relevant Company Subsidiaries shall provide the Guarantor or its advisors, as promptly as reasonably practicable, any non-confidential documents or other information reasonably requested by the Guarantor and required under applicable Law and/or the rules of the Shenzhen Stock Exchange in connection with the Guarantor's shareholders' meeting. The Company and the relevant Company Subsidiaries shall also take commercially reasonable actions reasonably requested by the Guarantor to assist the Guarantor in preparing meeting materials for the Guarantor's shareholders' meeting as well as relevant materials for filing with the Shenzhen Stock Exchange.

Section 6.04 Standstill.

(a) Subject to the provisions of this Section 6.04, from the date hereof until the Closing Date or the earlier termination of this Agreement pursuant to Article VII, except as contemplated by the Transaction Documents or in furtherance of the transactions contemplated by this Agreement, or as otherwise approved by the Board of Directors, neither the Investor nor the Guarantor shall, and each of the Investor and the Guarantor shall cause each of their respective Affiliates not to, in any manner, directly or indirectly, acting alone or with others, including as part of a 13D Group or through or in concert with their respective directors, officers, employees, agents or representatives:

(i) acquire or agree, offer, seek or propose, whether by purchase, tender or exchange offer, to acquire ownership of any (x) of the businesses or material assets of the Company or any Subsidiary or (y) Beneficial Ownership of (i) any Equity Securities or any equity securities of any Subsidiary, or (ii) any derivative instrument the value of which is determined by reference to any Equity Security;

(ii) make any proposal for a merger, reorganization, recapitalization, business combination or other similar extraordinary transaction involving the Company or any Subsidiary (other than any Subsidiary in which Investor holds an interest);

(iii) seek to influence the control or management of the Company or any Subsidiary (other than any Subsidiary in which Investor holds an interest) in any manner, including by engaging in any "solicitation" (within the meaning of the Exchange Act) of proxies or consents to vote any Equity Securities, or becoming a "participant" in any "election contest" (both within the meaning of the Exchange Act) seeking to elect

directors not nominated by the Board of Directors, or calling, or seeking or proposing to call, any meeting of the Company's stockholders in connection therewith;

(iv) in any manner, agree, attempt, seek or propose to deposit any securities of the Company or any rights to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing) any Equity Securities or any equity securities of any Subsidiary in any voting trust or similar arrangement;

(v) form or join in the formation of a 13D Group with respect to any Equity Securities or equity securities of any Subsidiary (other than otherwise to the Company or the relevant Subsidiary or a Person specified by the Company in a proxy card provided to stockholders of the Company or the relevant Subsidiary by or on behalf of the Company or the relevant Subsidiary);

(vi) publicly announce any intention, plan or arrangement in connection with any of the foregoing or finance (or arrange for financing for) any Person for the purposes of pursuing any of the foregoing; or

(vii) enter into any discussions with any third party regarding, or take any action that would require the Company to make any public disclosure with respect to any of the foregoing;

provided that (i) nothing in this Section 6.04 shall be construed as prohibiting the Guarantor from engaging in any confidential discussions with the chief executive officer of the Company with respect to the matters set forth in Section 6.04(a), provided such discussions do not require the Company to make any public disclosures with respect thereto or with respect to the foregoing and (ii) the restrictions set forth in this Section 6.04 shall terminate and be of no further force or effect if any Person (other than the Investor or any Affiliate of the Investor), whether singly or as part of a 13D Group, acquires a majority of the Company's Equity Securities or all or substantially all of the Company's and its Subsidiaries' assets, taken as a whole (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise).

(b) Neither the Investor nor the Guarantor will request, directly or indirectly, that the Company (or its Affiliates, directors, officers, employees, agents or representatives) terminate, amend, modify or waive any provision of this Section 6.04. The Investor and the Guarantor shall promptly notify the Company of any material proposal made to its or any Subsidiary of Guarantors' board members or executive officers with respect to any of the matters set forth in Section 6.04(a).

Section 6.05 Further Regulatory Matters.

(a) For a period commencing on the date of this Agreement and ending on the first anniversary of the Closing Date, the Investor and the Guarantor shall not, and shall cause their Affiliates not to, consummate (A) any merger, consolidation, combination, share exchange, acquisition of assets, securities or similar transaction that would result in the Investor, the Guarantor or such Affiliate, as the case may be, acquiring Beneficial Ownership of a majority of the assets or equity securities of any of the companies listed on the Restricted Entity List, or (B) any transaction that would result in the Investor, the Guarantor or such Affiliate, as the case may be, acquiring Beneficial Ownership of equity securities and the right to nominate a member of the board of directors of any of the companies listed on the Restricted Entity List.

(b) If, during the period commencing on the date of this Agreement and ending on the first anniversary of the Closing Date, (x) Holdings or any of its Affiliates (including for this purpose the Investor and the Guarantor and their Affiliates) shall consummate any merger, consolidation, combination, share exchange, acquisition of assets or securities or similar transaction that results in Holdings or such Affiliate acquiring Beneficial Ownership of any of the assets or equity securities of any of the companies listed on the Restricted Entity List or any of such companies' subsidiaries, and (y) the Company or any Subsidiary shall consummate or enter into a definitive agreement to consummate any merger, consolidation, combination, share exchange, acquisition of assets or securities or similar transaction that results in the Company or such Subsidiary acquiring Beneficial Ownership of any of the assets or equity securities of any other Person (any transaction described in by this clause (y), a "Future Transaction"), then, the Investor and the Guarantor shall, and shall cause their Affiliates to, take any of the following actions or combination of such actions to the extent necessary to resolve all Future Transaction Impediments: (i) waiving rights under the Investor Rights Agreement, (ii) disposing of assets or securities of, and/or changing the terms of agreements, relationships or transactions with, any Person other than the Company and any Subsidiary, (iii) disposing of Equity Securities and or equity securities of any of the Company or any of its Affiliates, or (iv) agree to any consent decree or other agreement with respect to the operation of the business of the Investor, Guarantor or their Affiliates. "Future Transaction Impediments" means, with respect to any proposed Future Transaction, Impediments to such Future Transaction under the HSR Act, the Clayton Act, and any other applicable Antitrust Laws to the extent such Impediments arise out of or relate to the assets or business to be acquired by the Company or its Subsidiary in the Future Transaction, on the one hand, and the assets, securities or business acquired by Holdings or any of its subsidiaries as described in clause (x) above, on the other hand.

(c) Subject to the consent of the counterparty in any pending potential material transaction discussions ("Transaction Discussions") the Company agrees to disclose to the Investor and the Guarantor such Transaction Discussions, provided that the Investor agrees in writing that the Investor does not have any disclosure obligations that require any disclosure or reference of any kind to the Transaction Discussions and that the Guarantor will not make any disclosure of any kind with respect to or reference to the Transaction Discussions to any Person (including, without limitation, Affiliates of the Guarantor).

Section 6.06 Further Assurances. Subject to the terms and conditions of the other sections of this Article VI, each of the parties shall execute such documents and perform such further acts as may be reasonably required or desirable to carry out or to perform the provisions of this Agreement.

Section 6.07 Shareholders Meeting. The Guarantor shall as promptly as practicable after the date hereof take all actions required or advisable in order to call, give notice of, convene, and hold a meeting of its shareholders to approve the transactions contemplated by the Transaction Documents, distribute all materials required in connection with such meeting and use its reasonable best efforts to obtain shareholder approval of the transactions contemplated by the Transaction Documents.

Section 6.08 Guaranty. The Investor and the Guarantor shall cause Unigroup to deliver the Guaranty to the Company within ten (10) Business Days after the date of this Agreement.

Section 6.09 Stockholder Rights Plan. The Company shall not adopt any stockholder rights or similar plan or arrangement unless Investor's purchase of the Shares pursuant to this Agreement, or subsequent purchases of Common Stock authorized under the Investor Rights Agreement, does not constitute a triggering event thereunder.

Section 6.10 Sovereign Immunity. To the extent that the Investor and the Guarantor are ever construed as a Governmental Entity or are or become entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Agreement at any time brought against the Investor or Guarantor, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding, from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Investor and the Guarantor hereby unconditionally and irrevocably agree (a) that the execution, delivery and performance by it of this Agreement constitute private and commercial acts done for private and commercial purposes rather than public or governmental acts and (b) not to claim and unconditionally and irrevocably waive such immunity to the full extent it is permitted to do so under applicable Law of such jurisdiction.

ARTICLE VII
CONDITIONS TO CLOSING

Section 7.01 Mutual Conditions of Closing . The obligations of the Company, the Guarantor and the Investor to consummate the transactions contemplated by the Transaction

Documents shall be subject to the fulfillment or mutual written waiver, at or prior to the Closing, of each of the following conditions:

(a) No Adverse Law, Injunction. There shall not be any Law or Governmental Order in effect that restrains, enjoins, or otherwise prohibits the transactions contemplated by the Transaction Documents;

(b) HSR. The applicable HSR Act waiting period will have expired or have been terminated and any timing agreement to which the parties entered with the Federal Trade Commission or Department of Justice Antitrust Division shall have expired or been terminated;

(c) Other Competition Filings. Any applicable approval or waiting period required under any other applicable Antitrust Laws will have been obtained or terminated or will have expired.

(d) MOFCOM. If applicable, the Guarantor shall have received a written certificate from MOFCOM (□□□□□□□□) or its equivalent that confirms the completion of the filing with the MOFCOM for the transactions contemplated by the Transaction Documents without the imposition of any Impediment (the "MOFCOM Registration");

(e) NDRC. The Guarantor shall have received the filing notice issued by the NDRC (□□□□□□□) or its equivalent that confirms the completion of the filing with the NDRC for the transaction contemplated by the Transaction Documents without the imposition of any Impediment (the "NDRC Registration");

(f) SAFE. If applicable, the Guarantor shall have received registration certificate (□□□□□□) from SAFE or a bank authorized by SAFE and a registration form (□□□□□□□□□□□□□), or their equivalent, that confirms the completion with the foreign exchange registration for the transactions contemplated by this Agreement without the imposition of any Impediment (the "SAFE Registration");

(g) MOE. If applicable, the Guarantor shall have obtained from the MOE a filing document with respect to the valuation of the Shares (□□□□□□□□□□□□□□) or its equivalent (the "MOE Registration");

(h) CFIUS. The CFIUS Approval shall have been obtained.

(i) Necessary Stockholder Approval. The shareholders of the Guarantor shall have duly approved the transactions contemplated herein (the "Necessary Stockholder Approval").

Section 7.02 Conditions to Obligations of the Company. The obligations of the Company to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Investor and the Guarantor contained in this Agreement shall be true and correct in all material respects or, where any statement in a representation or warranty expressly includes a standard of materiality, such statement shall be true and correct in all respects as so qualified, in each case, as of the date of this Agreement and as of the Closing Date as if made at and as of such date (except to the extent such representation or warranty is expressly made as of an earlier date);

(b) Covenants. The covenants and agreements contained in this Agreement to be complied with by the Investor and the Guarantor on or before the Closing shall have been complied with in all material respects;

(c) Investor Closing Certificate. The Investor shall have delivered to the Company a certificate, dated as of the date of the Closing and signed by any senior officer, certifying to the effect that the conditions set forth in Sections 7.01(d), (e), (f), (g) and (i) and Sections 7.02(a) and (b) have been satisfied; and

(d) Investor Rights Agreement. The Company shall have received the Investor Rights Agreement, duly executed and delivered by the Investor and the Guarantor.

Section 7.03 Conditions to Obligations of the Investor and the Guarantor. The obligations of the Investor and the Guarantor to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

(a) Representations and Warranties. (i) The representations and warranties of the Company contained in Sections 4.02 (Capitalization), 4.05 (Authorization of the Shares), 4.07 (Absence of Proceedings) and 4.08 (No Material Adverse Effect) of this Agreement shall be true and correct in all respects, and (ii) the representations and warranties of the Company contained in this Agreement (other than representations and warranties of the Company contained in Sections 4.02, 4.05, 4.07 and 4.08 of this Agreement) shall be true and correct in all material respects or, where any statement in a representation or warranty expressly includes a standard of materiality, such statement shall be true and correct in all respects as so qualified, in each case, as of the date of this Agreement and as of the Closing Date as if made at and as of such date (except to the extent such representation or warranty is expressly made as of an earlier date).

(b) Covenants. The covenants and agreements contained in this Agreement to be complied with by the Company on or before the Closing shall have been complied with in all material respects;

(c) Company Closing Certificate. The Company shall have delivered to the Investor a certificate, dated as of the date of the Closing and signed by any senior officer, certifying to the effect that the conditions set forth in Sections 7.03(a), (b), (d) and (e) have been satisfied;

(d) Nasdaq Listing. The Shares shall have been approved for listing on the Nasdaq subject to notice of issuance by the Company;

(e) No Material Adverse Effect. Since July 3, 2015, no event or events shall have occurred and be continuing which, individually or in the aggregate, constitute a Material Adverse Effect; and

(f) Investor Rights Agreement. The Investor shall have received the Investor Rights Agreement, duly executed and delivered by the Company.

ARTICLE VIII
TERMINATION

Section 8.01 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of the Company, the Investor and the Guarantor;

(b) by the Investor or the Guarantor, if (i) the Company shall have breached any representation, warranty, covenant or agreement set forth in this Agreement, (ii) such breach is not cured within twenty (20) days after the Company receives written notice thereof from the Investor (or such shorter period between the date of such notice and the Closing), and (iii) such breach would cause any of the conditions set forth in Sections 7.03(a), (b) or (e) not to be satisfied;

(c) by the Company, if (i) the Investor or the Guarantor shall have breached any representation, warranty, covenant or agreement set forth in this Agreement, (ii) such breach is not cured within twenty (20) days after the Investor receives written notice thereof from the Company (or such shorter period between the date of such notice and the Closing), and (iii) such breach would cause any of the conditions set forth in Sections 7.02(a) or (b) not to be satisfied;

(d) by the Company, the Guarantor or the Investor if the Closing shall not have occurred by February 29, 2016; provided, however, that the right to terminate this Agreement under this paragraph (d) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(e) by the Investor, the Guarantor or the Company in the event that (i) any Governmental Entity shall have issued a Governmental Order or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by the Transaction Documents, and (ii) such Governmental Order or action shall have become final and nonappealable; and

(f) by the Investor in the event (i) (x) any Person, whether singly or as part of a 13D Group, acquires a majority of the Company's Equity Securities or all or substantially all of the Company's and its Subsidiaries' assets, taken as a whole (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise), or (y) the Company or any Subsidiary shall enter into a definitive agreement with respect to, or shall publicly announce that it plans to enter into a transaction with respect to, any of the foregoing, (ii) the Board or the stockholders of the Company shall approve a plan of liquidation or dissolution of the Company, or (iii) of any transaction or other event in which the Common Stock no longer is required to be registered under the Exchange Act;

(g) prior to the Necessary Shareholder Approval having been obtained, by the Company in the event (i) any Person, whether singly or as part of a 13D Group, acquires a majority of the Company's Equity Securities or all or substantially all of the Company's and its Subsidiaries' assets, taken as a whole (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise), or (ii) the Company or any Subsidiary shall enter into a definitive agreement with respect to any of the foregoing; or

(h) by either of the Investor or the Company in accordance with Section 6.02(b).

Section 8.02 Effect of Termination. In the event of termination of this Agreement as provided herein, this Agreement shall forthwith become void and there shall be no liability under this Agreement on the part of either party hereto except that nothing herein shall relieve either party from liability for any breach of this Agreement that occurred before such termination and the terms of Article IX shall survive any such termination.

ARTICLE IX
GENERAL PROVISIONS

Section 9.01 Amendment and Modification. This Agreement may not be amended, modified or supplemented except by written agreement of the Company, the Guarantor and the Investor.

Section 9.02 Extension; Waiver. The Company, on the one hand, and the Investor and the Guarantor, on the other hand, may (a) extend the time for the performance of any of the obligations or acts of the Investor and the Guarantor or the Company, as applicable, (b) waive any

inaccuracies in the representations and warranties of the Investor and the Guarantor or the Company, as applicable, contained herein or in any document delivered pursuant hereto, (c) waive compliance with any of the agreements of the Investor and the Guarantor or the Company, as applicable, contained herein or (d) waive any condition to the obligations of the Investor and the Guarantor or the Company, as applicable hereunder. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed by such party. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing among the parties, shall constitute a waiver of any such right, power or remedy.

Section 9.03 Binding Nature; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, transferred or delegated by any of the parties without prior written consent of the other parties, and any attempt to make any such assignment, transfer or delegation without such consent shall be null and void.

Section 9.04 Survival of Representations and Warranties. The representations and warranties of the parties contained herein shall not survive the Closing Date; provided, that Sections 4.01(a), (b) and (d), 4.10, 5.01, 5.06, 5.08, 5.09 and 5.10 herein shall survive indefinitely; and provided further that Section 4.02(a) shall survive for a period of 12 months after the Closing Date, but only if and to the extent any representation set forth therein is incorrect in any material respect.

Section 9.05 Public Announcements. Neither party will make any public disclosure regarding the Transaction Documents or the transactions contemplated in the Transaction Documents without first consulting with the other party, except as may be required by applicable Law and applicable stock exchange rules or to the extent required to obtain the Governmental Approvals; provided that the initial announcement and/or disclosure of the transactions contemplated by the Transaction Documents shall be mutually agreed by the parties. To the extent reasonably practicable, the parties shall cooperate on the content of any public disclosure.

Section 9.06 Expenses. Except as otherwise specified in the Transaction Documents, all costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 9.07 Severability. Any provision of this Agreement that is invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provision of this Agreement invalid, illegal or unenforceable in any other jurisdiction.

Section 9.08 Entire Agreement. The Transaction Documents (including any exhibits and schedules) and the Confidentiality Agreement constitute the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and undertakings, both written and oral, among the Company, the Guarantor and the Investor with respect to the subject matter hereof and thereof.

Section 9.09 Notices. All notices, requests, consents, waivers and other communications hereunder shall be in writing and shall be deemed given: (a) when delivered if delivered personally (including by courier); (b) on the third day after mailing, if mailed, postage prepaid, by registered or certified mail (return receipt requested); (c) on the day after mailing if sent by an internationally recognized overnight delivery service that maintains records of the time, place and recipient of delivery; or (d) upon receipt of a confirmed transmission, if sent by telex, telecopy or facsimile transmission or e-mail, in each case to the other parties at the following addresses, facsimile numbers or e-mail addresses or to such other addresses as may be furnished in writing by one party to the others:

(a) if to the Investor or the Guarantor to:

Unisplendour Corporation Limited
9/F Unis Plaza, Tsinghua Science Park
Beijing, China 100084
Attn: Wei Zhang, VP
Facsimile: +86 10 6277.0880
Email: zw@thunis.com

with a copy (which shall not constitute notice) to:

Hogan Lovells US LLP
555 Thirteenth Street, NW
Washington, DC 20004
Attention: J. Warren Gorrell
Facsimile: +1 202 637 5910
Email: warren.gorrell@hoganlovells.com
Attention: Glenn C. Campbell
Facsimile: +1 202 637 5910
Email: glenn.campbell@hoganlovells.com
Attention: Elizabeth M. Donley
Facsimile +1 202 637 5910
Email: elizabeth.donley@hoganlovells.com

Hogan Lovells International LLP
31st Floor, Tower 3, China Central Place
No. 77 Jianguo Road
Chaoyang District

Beijing 100025
Attention: Jun Wei
Facsimile: +86 10 6582 9499
Email: jun.wei@hoganlovells.com

(b) if to the Company:

Western Digital Corporation

3355 Michelson Drive, Suite 100
Irvine, California 92612
Attention: General Counsel
Facsimile: (949) 672-9612
E-mail: Michael.Ray@wdc.com

with a copy (which shall not constitute notice) to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Attention: Neil Whoriskey
Facsimile: (212) 225-3999
E-mail: nwhoriskey@cgsh.com
Attention: Adam Fleisher
Facsimile: (212) 225-3999
E-mail: afleisher@cgsh.com
Attention: Matthew P. Salerno
Facsimile: (212) 225-3999
E-mail: msalerno@cgsh.com

Section 9.10 No Third-Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns and, except as set forth in Section 5.06 in the Investor Rights Agreement, nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever, under or by reason of this Agreement.

Section 9.11 Governing Law. This Agreement and the legal relations among the parties shall be governed by and construed in accordance with the Laws of the State of New York without giving effect to any Law or rule that would cause the Laws of any jurisdiction other than the State of New York to be applied.

Section 9.12 Arbitration; Provisional Remedies; Consent to Jurisdiction; Service of Process; Venue.

(a) All disputes arising out of, relating to or in connection with this Agreement shall be finally settled under the Rules of Arbitration (the "Rules") of the International Chamber of Commerce (the "ICC"). Each party, on behalf of itself and its Affiliates, irrevocably and unconditionally consents to such arbitration as the sole and exclusive method of resolving any such dispute.

(b) The arbitration proceeding will take place in the Borough of Manhattan, City of New York and will be conducted in the English language. There shall be three (3) arbitrators, one of whom shall be nominated by the initiating party in the notice of arbitration, the second of whom shall be nominated by the other party within thirty (30) days of receipt of the request for arbitration, and the third of whom, who shall act as the chairman, nominated by the two (2) appointed arbitrators within thirty (30) days of the appointment of the second arbitrator, should the two party appointed arbitrators fail to agree on the nomination of the third arbitrator within such 30-day period, the third arbitrator shall be appointed by the ICC pursuant to the Rules. The third arbitrator shall be chosen solely from among individuals who are licensed to practice law in the State of New York. Judgment upon any arbitral award rendered may be entered and a confirmation order sought in any court having jurisdiction thereof.

(c) For the avoidance of doubt, the arbitral tribunal shall have the power to issue injunctions and award specific performance in accordance with Section 9.14. The arbitral tribunal shall have no power to impose any non-monetary sanctions.

(d) Nothing in this Agreement shall prevent any party from seeking provisional measures from any court of competent jurisdiction, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate. To that end, each of the parties to this Agreement irrevocably and unconditionally submits to the jurisdiction of the federal courts of the United States of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, for the purposes of any such action or other proceeding seeking provisional measures in connection with this Agreement. The Investor and the Guarantor have appointed [•] as its authorized agent (the "Authorized Agent") upon whom process may be served in any such action or proceeding which may be instituted in any New York court. The Investor and the Guarantor hereby represent and warrant that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and the Investor and the Guarantor agree to take any and all action, including the filing of any and all documents that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Investor and the Guarantor. The Company irrevocably consents to service of process in the manner provided for notice in Section 9.09. Each of the parties irrevocably and unconditionally waives (and agrees not to plead or claim), any objection to the laying of venue of any action or proceeding arising out of this Agreement or the transactions contemplated hereby in the federal courts of the United States

of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, or that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.13 Damages. No party shall any party seek or be entitled to receive special or punitive damages as to any matter under, relating to or arising out of the transactions contemplated by this Agreement.

Section 9.14 Specific Performance. The parties hereto agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof, in addition to any other remedy to which they are entitled at Law or in equity.

Section 9.15 Currency. Unless otherwise specified in this Agreement, all references to currency, monetary values and dollars set forth herein means United States (U.S.) dollars and all payments hereunder shall be made in United States dollars.

Section 9.16 Counterparts. This Agreement may be executed and delivered (including by facsimile transmission or portable document format (".pdf")) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized in the understanding that no contract shall be formed, and the parties shall be under no obligation with respect to the matters set out herein, unless and until Unis Union Information System Ltd. and Unisplendour Corporation Limited have delivered to Western Digital Corporation, and Western Digital Corporation has delivered to Unis Union Information System Ltd. and Unisplendour Corporation Limited, executed counterparts of these signature pages.

WESTERN DIGITAL CORPORATION

By /s/ Stephen D. Milligan
Name: Stephen D. Milligan
Title: Chief Executive Officer

UNIS UNION INFORMATION SYSTEM LTD.

By /s/ Lian Qi
Name: Lian Qi
Title: Executive Director

UNISPLENDOUR CORPORATION LIMITED

By /s/ Weiguo Zhao
Name: Weiguo Zhao
Title: Chairman

[*Signature Page to Stock Purchase Agreement*]

Exhibit A

Form of Investor Rights Agreement

INVESTOR RIGHTS AGREEMENT

by and among

Unis Union Information System Ltd.,

Unisplendour Corporation Limited

and

Western Digital Corporation

Dated as of [•]

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INVESTOR RIGHTS AGREEMENT

This Investor Rights Agreement (the "Agreement") is made as of this [•] day of [•], 201[•], by and among Unis Union Information System Ltd., a Hong Kong corporation (the "Investor"), Unisplendour Corporation Limited, a Chinese corporation (the "Guarantor"), and Western Digital Corporation, a Delaware corporation (the "Company").

WHEREAS, the Company, the Investor and the Guarantor are parties to that certain Stock Purchase Agreement, dated as of September 29, 2015 (as amended, through the date hereof, the "Stock Purchase Agreement"), pursuant to which the Company will issue to the Investor and the Investor will purchase from the Company on the Closing Date the Shares;

WHEREAS, in connection with the Stock Purchase Agreement and the transfer of the Shares to the Investor, the parties desire to enter into this Agreement in order to establish certain rights and restrictions relating to the Investor's ownership of the Shares; and

WHEREAS, in order to induce the Company to enter into this Agreement and the Stock Purchase Agreement, the Guarantor is guaranteeing the obligations of the Investor hereunder and under the Stock Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and for other good and valid consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.01 Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Stock Purchase Agreement and the following terms shall have the following meanings:

"13D Group" means any "group" within the meaning of Rule 13d-5 promulgated under the Exchange Act.

"Action" means any action, suit, proceeding, hearing, charge, complaint, claim, arbitration or investigation by or before any Governmental Entity.

"Additional Data" has the meaning set forth in Section 2.09(b).

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such specified Person. Notwithstanding the foregoing, it is acknowledged and agreed that for purposes of this Agreement, (i) for purposes of determining whether a Person is an Affiliate of the Investor and/or the Guarantor, "Affiliates" of the Investor and the Guarantor shall include Tsinghua Unigroup Co., Ltd. ("Unigroup") and those Persons controlled directly or indirectly by Guarantor and/or

Unigroup and shall not include any other Person controlling or under common control with Unigroup, and (ii) the Company, its officers, directors, agents, Subsidiaries and Persons that directly or indirectly control, are controlled by or are under common control with the Company, on the one hand, and the Investor, the Guarantor and their respective officers, directors, agents and subsidiaries, and respective persons that directly or indirectly control, are controlled by or are under common control with the Investor and the Guarantor, on the other hand, shall not be considered Affiliates of each other as a result of the transactions contemplated by the Transaction Documents.

"Agreement" has the meaning set forth in the preamble, and shall include all amendments hereto made in accordance with the provisions hereof.

"Antitrust Laws" means the Sherman Act, the Clayton Act, the HSR Act, the Federal Trade Commission Act and all other federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

"Authorized Agent" has the meaning set forth in Section 7.14.

"Beneficial Ownership," "Beneficially Own" or "Beneficially Owned" shall refer to the concept of "beneficial ownership" in Rule 13d-3 promulgated under the Exchange Act.

"Board" or "Board of Directors" means the Board of Directors of the Company.

"Board Qualifications" has the meaning set forth in Section 2.03.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by Law to be closed in the city of New York, New York, Hong Kong or Beijing, China. In the event that any action is required or permitted to be taken under this Agreement on or by a date that is not a Business Day, such action may be taken on or by the Business Day immediately following such date.

"Closing" means the closing of the transactions contemplated by the Stock Purchase Agreement.

"Closing Date" means the date on which the Closing occurs.

"Common Stock" means the common stock of the Company, par value $0.01.

"Company" has the meaning set forth in the preamble.

"Company Indemnitees" has the meaning set forth in Section 5.06(b).

"Company Supported Distribution" means a public underwritten offering by the Company of Registrable Securities that is designated by the Investor as a "Company Supported Distribution" in the applicable Shelf Take-Down Notice or Demand Notice.

"Restricted Entities" has the meaning set forth in Section 4.02(d)(i).

"Restricted Entity List" has the meaning set forth in Section 4.02(d)(i).

"Restricted Entity Transferees" has the meaning set forth in Section 4.02(d)(i).

"Confidentiality Agreement" means that certain Confidentiality Agreement, between the Guarantor and the Company, dated as of August 26, 2015.

"control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of securities, contract or otherwise.

"Demand Notice" has the meaning set forth in Section 5.02(a).

"Demand Registration" has the meaning set forth in Section 5.02(a).

"Demand Registration Statement" has the meaning set forth in Section 5.02(a).

"Election Meeting" has the meaning set forth in Section 2.01(d).

"Equity Securities" means any capital stock or other equity interests of the Company, any securities convertible into, exercisable for or exchangeable for capital stock or other equity interests of the Company, and any other rights, warrants, options or other instruments representing the right to acquire any of the foregoing securities.

"Exchange Act" means the Securities Exchange Act of 1934.

"Final Financial Data" has the meaning set forth in Section 2.09(c).

"FINRA" means the Financial Industry Regulatory Authority.

"Free Writing Prospectus" has the meaning set forth in Rule 405 promulgated under the Securities Act.

"Future Transaction" has the meaning set forth in Section 4.03(b).

"Governmental Entity" means any supranational, foreign, domestic, federal, territorial, provincial, regional, state, county, city, township or other local governmental authority, or any regulatory, self-regulatory, administrative or other agency, instrumentality, court, government organization, quasi-governmental organization, mediator, arbitrator or arbitral forum (whether public or private), commission, tribunal thereof, or any political or other subdivision, department or branch of any of the foregoing, or any private body exercising any tax, regulatory or governmental or quasi-governmental authority, or any securities exchange.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Entity with competent jurisdiction.

"Guaranteed Obligations" has the meaning set forth in Section 7.02(a).

"Guarantor" has the meaning set forth in the preamble.

"Holdings" has the meaning set forth in Section 4.03(b).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Indemnified Party" has the meaning set forth in Section 5.06(c).

"Indemnifying Party" has the meaning set forth in Section 5.06(c).

"Investor" has the meaning set forth in the preamble.

"Investor Nominee Termination Event" has the meaning set forth in Section 2.05.

"Investor Nominee" has the meaning set forth in Section 2.01(a).

"Investor Indemnitees" has the meaning set forth in Section 5.06(a).

"Law" means any statute, law, ordinance, regulation, rule, code, order or rule of law (including common law) of any Governmental Entity, and any judicial or administrative interpretation thereof, including any Governmental Order.

"Lockup Period" means the period commencing on the Closing Date and ending on the fifth anniversary of the Closing Date.

"Loss" or "Losses" shall have the meaning set forth in Section 5.06(a).

"Nomination Materials" has the meaning set forth in Section 2.01(b).

"Other Securities" means the Common Stock or other securities of the Company that are not Beneficially Owned by the Investor which the Company is registering pursuant to a Registration Statement covered by Article 5.

"Permitted Transfer" has the meaning set forth in Section 4.02(f).

"Permitted Transferee" has the meaning set forth in Section 4.02(f).

"Person" means any individual, sole proprietorship, partnership, limited liability company, corporation, association, joint stock company, trust, joint venture, unincorporated organization, any other business organization or entity, or Governmental Entity.

"Piggyback Notice" has the meaning set forth in Section 5.03(a).

"Piggyback Registration" has the meaning set forth in Section 5.03(a).

"Preliminary Data" has the meaning set forth in Section 2.09(b).

"Preliminary Financial Data" has the meaning set forth in Section 2.09(a).

"Prospectus" means the prospectus included in any Registration Statement, as amended or supplemented by any prospectus supplement and by all other amendments thereto, including post-effective amendments, and all material incorporated by reference into such prospectus.

"Registrable Securities" means (i) the Shares acquired by the Investor pursuant to the Stock Purchase Agreement, (ii) any shares of Common Stock acquired by the Investor in accordance with Section 4.01(b), (iii) any shares of Common Stock or other securities issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange generally for, or in replacement generally of, the Shares, such additional shares of Common Stock acquired in accordance with Section 4.01(b) or other Registrable Securities and (iv) any securities issued in exchange for the Shares, such additional shares of Common Stock acquired in accordance with Section 4.01(b) or other Registrable Securities in any merger, reorganization, consolidation, share exchange, recapitalization, restructuring or other comparable transaction of the Company. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when (i) a Registration Statement with respect to the sale by the Investor has been declared or deemed effective by the SEC and such securities have been disposed of pursuant to such effective Registration Statement, (ii) such securities have been otherwise Transferred (other than pursuant to Section 4.02(f) and in accordance with Section 7.05 or pursuant to Section 4.02(g)), (iii) such securities shall have ceased to be outstanding or (iv) such securities, together with all remaining Registrable Securities held by the Investor, have been or could all be sold in a single transaction without volume or other limitations pursuant to Rule 144 (or any similar provisions then in force) under the Securities Act.

"Registration Expenses" has the meaning set forth in Section 5.04(a).

"Registration Statement" means any registration statement of the Company under the Securities Act which permits the public offering of any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"SEC" means the U.S. Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933.

"Shares" means the shares of Common Stock issued to the Investor on the Closing Date pursuant to the Stock Purchase Agreement, as such shares may be adjusted to reflect the effect of any stock split, reverse stock split, reclassification, subdivision, combination, spin off, split off, exchange or conversion of shares or other like change with respect to Common Stock occurring on or after the date hereof.

"Shelf Date" has the meaning set forth in Section 5.01(a).

"Shelf Registration Statement" has the meaning set forth in Section 5.01(a).

"Shelf Take-Down Notice" has the meaning set forth in Section 5.01(b).

"Standstill Period" means the period commencing on the Closing Date and continuing until the latest to occur of (A) the fifth anniversary of the Closing Date, (B) the date on which the Guarantor, the Investor and the Subsidiaries of the Guarantor and/or the Investor cease to Beneficially Own, in the aggregate, at least five percent (5%) of the Voting Securities, and (C) three (3) months after the date on which the Investor is no longer entitled to nominate an Investor Nominee to the Board, after taking into account the cure period set forth in Section 2.05(a).

"Stock Purchase Agreement" has the meaning set forth in the recitals.

"Subsidiary" means, when used with reference to any Person, any other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions, or a majority of the outstanding voting securities of which, are owned directly or indirectly by such Person.

"Suspension Period" has the meaning set forth in Section 5.05(a)(ii).

"Total Voting Power" means, as of any date of determination, the total number of votes that may be cast in the election of directors of the Company if all Voting Securities then outstanding were present and voted at a meeting held for such purpose. The percentage of the Total Voting Power Beneficially Owned by any Person as of any date of determination is the percentage of the Total Voting Power of the Company that is represented by the total number of votes that may be cast in the election of directors of the Company by Voting Securities then Beneficially Owned by such Person.

"Transaction Discussions" has the meaning set forth in Section 4.03(c).

"Transaction Documents" means this Agreement and the Stock Purchase Agreement.

"Transfer" or "Transferred" means to, directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, (i) sell, assign, give, lease, pledge, encumber, hypothecate, mortgage, exchange or otherwise dispose, (ii) grant to any Person any option, right or warrant to purchase or otherwise receive, or (iii) enter into any swap, other agreement, transaction or series of transactions that hedges or transfers, in whole or in part, directly or

indirectly, any of the economic consequences or other rights of ownership, whether any such swap, agreement, transaction or series of transactions is to be settled by delivery of securities, in cash or otherwise.

"Voting Securities" means shares of Common Stock and any other securities of the Company entitled to vote generally in the election of directors of the Company.

ARTICLE 2

BOARD REPRESENTATION

Section 2.01 Investor Nominee Appointment and Nomination Right.

(a) *Generally.* The Investor shall have the right, but not the obligation, to designate one nominee to serve as a director of the Company (the "Investor Nominee"). From and after the date hereof, the Investor may at any time relinquish its right under this Section 2.01(a) to designate an Investor Nominee.

(b) *Nomination Materials*. With respect to the nomination of each Investor Nominee, the Investor shall (i) notify the Company in writing of the name of such Investor Nominee and (ii) provide the Company with a duly completed questionnaire providing such information regarding the Investor and the Investor Nominee as the Company regularly requests from all director nominees, together with such other information and documentation relating to the Company's compliance with applicable Law as the Company may reasonably request (the information described in this Section 2.01(b), the "Nomination Materials").

(c) *Appointment of Initial Investor Nominee*. [The initial Investor Nominee shall be [•]] Nomination Materials to be provided with sufficient time prior to Closing to permit review.. Promptly following (but in no event more than thirty (30) days following) the latest of (x) the Closing Date, (y) the Company's 2015 annual meeting of stockholders, and (z) the date on which the Company receives Nomination Materials with respect to the nominated initial Investor Nominee in form and substance reasonably satisfactory to the Company demonstrating, to the Company's reasonable satisfaction, that the initial Investor Nominee meets the Board Qualifications, the Board shall increase the size of the Board by one, and fill the resulting vacancy by appointing the initial Investor Nominee to the Board for a term expiring at the next annual meeting of stockholders of the Company in accordance with the Company's Certificate of Incorporation and Bylaws.

(d) *Subsequent Elections; Timetable of Election Materials*. With respect to each annual or special meeting of stockholders of the Company following the Company's 2015 annual meeting of stockholders, at which directors are to be elected and at which the seat held by the Investor Nominee will be subject to election (each, an "Election Meeting"), the Investor may re-nominate the then-current Investor Nominee or may nominate a new Investor Nominee and the Investor shall provide the Company with

Nomination Materials with respect to the re-nomination or nomination of such Investor Nominee. The Investor shall deliver to the Company, Nomination Materials in form and substance reasonably satisfactory to the Company demonstrating, to the Company's reasonable satisfaction, that such Investor Nominee meets the Board Qualifications at least 90 days prior to the date of such Election Meeting. With respect to each Election Meeting in respect of which the Investor has nominated or re-nominated an Investor Nominee and the Company has timely received Nomination Materials in respect of such Investor Nominee, the Board shall: (a) include such Investor Nominee in its slate of nominees for election to the Board at such Election Meeting and, (b) except to the extent the Board in good faith determines, based upon advice of nationally recognized outside legal counsel, that taking or failure to take such action would be inconsistent with its fiduciary duties under applicable Law, (i) recommend that the Company's stockholders vote in favor of the election of such Investor Nominee and support such Investor Nominee for election in a manner no less favorable than the manner in which the Company supports its other nominees, and (ii) the Board shall not (x) withdraw the nomination of the Investor Nominee or any of the foregoing recommendations, (y) nominate, in the aggregate, a number of nominees to the Board greater than the number of seats on the Board up for election, or (z) recommend the election of any other person to a position on the Board for which the Investor Nominee has been nominated. In the event that the required Nomination Materials are not timely received by the Company by the date specified by the Board (or any committee thereof) for the submission of director questionnaires by the Company's nominees to the Board with respect to any Election Meeting, neither the Company nor the Board shall have any obligation to nominate or appoint an Investor Nominee to the Board, subject to the Company's obligation to nominate an Investor Nominee at the next Election Meeting to the extent the Investor and such Investor Nominee satisfy the requirements of this Article 2 with respect to such Election Meeting; provided, however, that in the event the Board (or any committee thereof) shall have extended the date for the submission of a director questionnaire for any nominee to the Board, the Investor Nominee's submission of the Nomination Materials shall be deemed timely if received by the Company on or prior to such extended date.

(e) *Compliance.* The foregoing appointment and nomination rights will be subject to the Investor's compliance with this Agreement and the Investor Nominee satisfying and complying with the Company's Board Qualifications (as defined in Section 2.03); provided that, if an Investor Nominee does not meet the Board Qualifications, (i) the Company will not nominate a replacement candidate in place of the rejected Investor Nominee (unless the Investor does not designate a replacement candidate pursuant to its rights in the following clause (ii) by the deadline within clause (ii)), and (ii) the Investor shall have the right (if exercised as promptly as reasonably practicable and in any event prior to the date specified by the Board (or any committee thereof) for the submission of director questionnaires by the Company's nominees to the Board with respect to any Election Meeting) to designate a replacement candidate in place of the rejected Investor Nominee until such time as an Investor Nominee that meets the Board Qualifications is put forward by the Investor. [For the avoidance of doubt, the

Company hereby affirms that the initial Investor Nominee identified above satisfies the Board Qualifications as of the date hereof.] To be included if Nomination Materials in form and substance reasonably satisfactory for the Company, demonstrating to the Company's reasonable satisfaction, that the Investor Nominee meets the Board Qualifications, are provided with sufficient time prior to Closing to permit review.

Section 2.02 Vacancies. If an Investor Nominee who has been duly appointed or elected to the Board resigns from the Board, is removed (with or without cause) pursuant to applicable Law or the Company's Bylaws, fails to satisfy the Board Qualifications, dies or otherwise cannot or is not willing to stand for reelection or to continue to serve as a member of the Board, the Investor shall have the right to nominate a replacement Investor Nominee by submitting Nomination Materials to the Company in accordance with Section 2.01(b) hereof. Promptly following the date on which the Company receives Nomination Materials with respect to the nominated Investor Nominee that are in form and substance reasonably satisfactory to it and demonstrating that the Investor Nominee meets the Board Qualifications (and in any event prior to or concurrent with any further meeting or action by the Board following the receipt of such Nomination Materials), the Board shall appoint the Investor Nominee to the Board in accordance with the Company's Certificate of Incorporation and Bylaws for a term expiring at the next annual meeting of stockholders of the Company.

Section 2.03 Board Qualifications. Each Investor Nominee shall, at the time of nomination and at all times thereafter until such individual's service on the Board of Directors ceases, (a) meet and comply with any applicable requirements under applicable Law and the Company's corporate governance policies to be a member of the Board of Directors, (b) be an executive officer or former executive officer of the Investor or any of its Affiliates, (c) not be an officer or director of any Restricted Entity or Restricted Entity Transferee and (d) prior to being nominated, agree to comply with the requirements of this Section 2.03, Section 2.07 and Section 2.08 and prior to being nominated agree in writing to resign from the Board when required by Section 2.05 or if he or she has violated Section 2.07 or Section 2.08 (the "Board Qualifications"). The Company shall not revise or amend the Board Qualifications in a manner that has the intent of adversely affecting the nomination, election or continued service of an Investor Nominee (by for instance, adding requirements that all directors meet citizenship or independence requirements that would disqualify Persons known by the Company to be the Investor's probable designees).

Section 2.04 Compensation, Indemnification and Insurance. No Investor Nominee shall receive any compensation for his or her services as a director. In all directors' and officers' insurance policies and rights in respect of indemnification and advancement of expenses, each current and former Investor Nominee shall be covered as an insured or covered person in such a manner as to provide the Investor Nominee with rights and benefits under such insurance policies or indemnification or advancement provisions no less favorable than provided to the other current or former (as applicable) non-executive directors of the Company.

Section 2.05 Termination of Investor Nominee Rights. Notwithstanding the foregoing, all of the Investor's rights under this Article 2 shall terminate permanently upon the earliest to occur of:

(a) the Guarantor, the Investor and the Permitted Transferees ceasing to Beneficially Own, in the aggregate, at least ten percent (10%) of the total number of issued and outstanding shares of Common Stock; provided, however, that in the event of any issuance of shares of Common Stock by the Company that causes the aggregate number of shares of Common Stock Beneficially Owned by the Investor to be less than ten percent (10%) of the total number of issued and outstanding shares of Common Stock at such time, Investor shall have three (3) months from the date the Investor receives written notice from the Company that the number of shares of Common Stock Beneficially Owned by Investor is less than ten percent (10%) of the total number of issued and outstanding shares to acquire additional shares of Common Stock to increase its Beneficial Ownership to at least ten percent (10%) of the total number of issued and outstanding shares of Common Stock pursuant to and in accordance with Section 4.01(b)(ii) before Investor's rights under this Article 2 are terminated pursuant to this Section 2.05; and

(b) any material breach by the Investor or the Guarantor of the provisions of Article 3 or Article 4 of this Agreement that is not cured within twenty (20) days after the Investor receives written notice thereof from the Company.

Each of the events described in subsections (a) and (b) of this Section 2.05 are referred to as an "Investor Nominee Termination Event."

Section 2.06 Non-Transferability. The Investor may not Transfer to any Person all or any portion of its rights under this Article 2 under any circumstances, notwithstanding the Transfer of all or any portion of the Shares.

Section 2.07 Mandatory Recusal. In the event that the Board receives materials regarding, deliberates, discusses or takes any action with respect to any matter relating to, involving or in connection with: (i) business activities involving U.S. government contracts or the sale, provision or potential sale or provision of products or services to a U.S. Government Entity, or contracts, products or services involving the International Traffic in Arms Regulations (ITAR) or (ii) any transaction or other arrangement that may require approval of any third party or any Governmental Entity as a result of the Investor's ownership of Equity Securities or the Investor's rights under this Agreement, then, in each case, the Investor Nominee shall not be entitled to receive any such information and shall recuse himself or herself from any discussions to the extent related thereto, and the Company shall refrain from disclosing information and materials related thereto to the Investor Nominee.

Section 2.08 Confidentiality. Information disclosed to the Investor Nominee in connection with his or her service as a member of the Board shall be kept confidential by the Investor Nominee in accordance with the Company's Code of Business Ethics and other

corporate governance policies applicable to the Company's directors, which, for the avoidance of doubt precludes disclosure of such information by the Investor Nominee to the Investor or any of its Affiliates.

Section 2.09 Access to Financial Data.

(a) To the extent reasonably requested by the Guarantor solely for purposes of preparing such audited and unaudited financial statements, including the notes thereto, as the Guarantor is required to publicly disclose under applicable Law, the Company shall make available to the Guarantor as promptly as reasonably practicable following the end of each fiscal quarter or year of the Company, as applicable, the net income appearing in the preliminary, unaudited consolidated statement of income of the Company and the notes thereto in respect of that period (the "Preliminary Financial Data").

(b) The Company will use its reasonable best efforts to provide the Guarantor with such further information as is reasonably requested by the Guarantor in connection with the Guarantor's preparation of the Guarantor's financial statements (the "Additional Data" and, together with the Preliminary Financial Data, the "Preliminary Data") and reasonable assistance relating thereto.

(c) As promptly as reasonably practicable following the public disclosure by the Company of its unaudited or audited consolidated financial statements in respect of a fiscal quarter or year (the "Final Financial Data"), the Company shall send copies of the Final Financial Data to the Guarantor.

(d) The Guarantor hereby acknowledges and agrees that the Preliminary Data and the Final Financial Data provided by the Company to the Investor is without any representation or warranty on behalf of the Company of any kind or nature whatsoever, oral or written, express or implied, and that neither the Company nor any of its Subsidiaries shall have any liability whatsoever to the Guarantor or any other Person with respect to the Guarantor's use of the Preliminary Data or, except as contemplated by the United States federal securities laws, the Final Financial Data. The Company shall have no obligation to reconcile the Preliminary Data with the Final Financial Data.

(e) The Guarantor shall keep the Preliminary Data confidential and shall not directly or indirectly, including through the disclosure of financial data that reflects the Preliminary Data, disclose the Preliminary Data to any Person, other than its officers, employees and external accountants who have a need to know such data, who have been advised of the confidentiality of the Preliminary Data, and who have agreed (in the case of external accountants, in writing) to be bound by the terms of this Section 2.09 as if such Person was the Guarantor. The Guarantor shall fully indemnify the Company and be liable for any losses, claims, damages, costs or expenses of any kind arising from a violation of this Section 2.09 by the Guarantor or any such officer, employee or external accountant.

(f) The Guarantor hereby acknowledges and agrees that the Preliminary Data constitutes material non-public information for purposes of the U.S. federal securities laws (and has a comparable status under the Law of other jurisdictions) and that applicable Law prohibits the sale or purchase of securities of the Company or its Subsidiaries while in possession of material non-public information; the Guarantor agrees that it shall, and shall cause any other Person that has received the Preliminary Data from the Guarantor, to refrain from trading in any such securities until such time as the Final Financial Data has been disclosed by the Company in respect of any period for which the Guarantor has received the Preliminary Data.

ARTICLE 3

VOTING AGREEMENT

Section 3.01 Voting Agreement. Until the later of (i) six months after the date on which the Investor is no longer entitled to nominate an Investor Nominee to the Board and (ii) the date on which the Investor, the Guarantor and their respective Affiliates Beneficially Own, in the aggregate, less than five percent (5.0%) of the Total Voting Power, each of the Investor and the Guarantor agrees to cause each Equity Security entitled to vote on the relevant matter and Beneficially Owned by it or its Affiliates to be voted by proxy (returned sufficiently in advance of the deadline for proxy voting for the Company to have the reasonable opportunity to verify receipt including, if applicable, through the execution of one or more written consents if stockholders of the Company are requested to vote through the execution of an action by written consent in lieu of any such annual or special meeting of stockholders of the Company) or in person in accordance with the recommendation of the Board of Directors, in respect of (a) the election of directors of the Company or any matter (procedural or otherwise) relating to the election of directors, including non-binding shareholder proposals with respect thereto; (b) any acquisition or disposition of any properties or assets, any merger, consolidation or other business combination transaction, including any stockholder resolutions upon which any such acquisition, disposition, merger, consolidation or other business combination transaction is contingent; (c) the issuance, sale, pledge, distribution or other disposition, repurchase, redemption or other acquisition of capital stock or indebtedness; (d) any matters related to equity incentive plans or other employee or director compensation matters including any “say on pay” votes; (e) any amendment, modification, supplement, restatement or other change to the Company’s or its Subsidiaries’ certificates of incorporation, bylaws or other governing documents, including any non-binding shareholder proposals with respect thereto; (f) quorum requirements for meetings of the Company’s stockholders; and (g) any other “routine” matters on which banks, brokers, and other nominees are permitted, under applicable Law, as of the date hereof, to exercise discretionary voting authority without instruction from their respective clients.

Section 3.02 Board Authority. For the avoidance of doubt, notwithstanding Section 3.01 above, the Board shall have full authority in respect of the following matters: (a) the appointment or dismissal of officers or senior managers of the Company, (b) entry into, termination, or non-fulfillment by the Company of significant contracts, and (c) the policies or

procedures of the Company governing the treatment of nonpublic technical, financial, or other proprietary information of the Company.

Section 3.03 Investor Nominee. For the avoidance of doubt, the requirements set forth in Section 3.01 shall not impose any obligations on the Investor Nominee in his or her capacity as a director of the Company and shall not require the Investor Nominee to vote in any particular manner in his or her capacity as a director of the Company.

ARTICLE 4

INVESTOR AND GUARANTOR RESTRICTIONS AND AGREEMENTS

Section 4.01 Standstill.

(a) Subject to the provisions of this Section 4.01, during the Standstill Period, unless otherwise approved by the Board of Directors (excluding Investor Nominee), neither the Investor nor the Guarantor shall, and each of the Investor and the Guarantor shall cause each of their respective Affiliates not to, in any manner, directly or indirectly, acting alone or with others, including as part of a 13D Group or through or in concert with their respective directors, officers, employees, agents or representatives:

(i) acquire or agree, offer, seek or propose, whether by purchase, tender or exchange offer, to acquire ownership of any (x) of the businesses or material assets of the Company or any Subsidiary or (y) Beneficial Ownership of (i) any Equity Securities or any equity securities of any Subsidiary, or (ii) any derivative instrument the value of which is determined by reference to any Equity Security;

(ii) make any proposal for a merger, reorganization, recapitalization, business combination or other similar extraordinary transaction involving the Company or any Subsidiary (other than any Subsidiary in which Investor holds an interest);

(iii) except through the actions of the Investor Nominee (solely to the extent such actions are taken confidentially and are taken in his or her capacity as a member of the Board of Directors), seek to influence the control or management of the Company or any Subsidiary (other than any Subsidiary in which Investor holds an interest) in any manner, including by engaging in any “solicitation” (within the meaning of the Exchange Act) of proxies or consents to vote any Equity Securities, or becoming a “participant” in any “election contest” (both within the meaning of the Exchange Act) seeking to elect directors not nominated by the Board of Directors, or calling, or seeking or proposing to call, any meeting of the Company’s stockholders in connection therewith;

(iv) in any manner, agree, attempt, seek or propose to deposit any securities of the Company or any rights to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing) any Equity Securities or any equity securities of any Subsidiary in any voting trust or similar arrangement;

(v) form or join in the formation of a 13D Group with respect to any Equity Securities or equity securities of any Subsidiary, or grant to any Person any proxy with respect to the exercise of voting rights with respect to the Equity Securities or equity securities of any Subsidiary (other than (A) pursuant to Section 3.01 or (B) otherwise to the Company or the relevant Subsidiary or a Person specified by the Company in a proxy card provided to stockholders of the Company or the relevant Subsidiary by or on behalf of the Company or the relevant Subsidiary);

(vi) publicly announce any intention, plan or arrangement in connection with any of the foregoing or finance (or arrange for financing for) any Person for the purposes of pursuing any of the foregoing; or

(vii) enter into any discussions with any third party regarding, or take any action that would require the Company to make, any public disclosure with respect to any of the foregoing;

provided that (i) nothing in this Section 4.01 shall be construed as prohibiting the Guarantor from engaging in any confidential discussions with the chief executive officer of the Company with respect to the matters set forth in Section 4.01(a), provided such discussions do not require the Company to make any public disclosures with respect thereto or with respect to the foregoing and (ii) the restrictions set forth in this Section 4.01(a) shall terminate and be of no further force or effect if any Person (other than the Investor or any Affiliate of the Investor), whether singly or as part of a 13D Group acquires a majority of the Company's Equity Securities or all or substantially all of the Company's and its Subsidiaries' assets, taken as a whole (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise).

(b) Notwithstanding clause (a) above, the Investor may (i) acquire additional shares of Common Stock to the extent necessary to maintain or, in the event the number of Shares acquired on the Closing Date represented less than 15% of the total number of issued and outstanding shares of Common Stock, obtain, together with the Guarantor and Holdings and all of its and the Guarantor's and Holdings' Affiliates, Beneficial Ownership of a number of shares of Common Stock that is equal to up to 15% of the total number of issued and outstanding shares of Common Stock as determined based on the total number of issued and outstanding shares of Common Stock (A) as most recently announced by the Company prior to such acquisition or (B) as of a later date upon the Investor's request that the Company provide the then current number of issued and

outstanding shares of Common Stock, provided that the Investor has not previously Transferred (other than Transfers to Permitted Transferees and Transfers pursuant to Section 4.02(g)) any Shares; provided that any sales or other dispositions of Shares by the Investor required pursuant to Section 4.01(c) or Section 4.03(b) shall not constitute sales of Shares by the Investor for purposes of this Section 4.01(b)(i), (ii) acquire additional shares of Common Stock to the extent necessary to maintain, together with the Guarantor and Holdings and all of their respective Affiliates, Beneficial Ownership of a number of shares of Common Stock that is equal to 11% of the total number of issued and outstanding shares of Common Stock as determined based on the total number of issued and outstanding shares of Common Stock (A) as most recently announced by the Company prior to such acquisition or (B) as of a later date upon the Investor's request that the Company provide the then current number of issued and outstanding shares of Common Stock, provided that the Investor has not previously Transferred (other than Transfers to Permitted Transferees and Transfers pursuant to Section 4.02(g)) in the aggregate a number of shares of Common Stock in an amount equal to 30% or more of the Shares; provided that any sales or other dispositions of Shares by the Investor required pursuant to Section 4.01(c) or Section 4.03(b) shall not constitute sales of Shares by the Investor for purposes of this Section 4.01(b)(ii), or (iii) acquire or propose to acquire Beneficial Ownership of additional Equity Securities in a transaction previously approved in writing by the Board, which transaction was proposed on a confidential basis to the Board, and which proposed transaction remains confidential until after the Board authorizes disclosure and is consummated only in accordance with the terms and conditions approved by the Board.

(c) In the event that at any time Holdings and its Affiliates in the aggregate Beneficially Own more than 15% of the total number of issued and outstanding shares of Common Stock, Guarantor and its Subsidiaries shall be obligated to sell such number of shares of Common Stock to reduce the aggregate Beneficial Ownership of Holdings and its Affiliates (after taking into account any sales by Holdings or its Affiliates) to 15% or less of the total number of issued and outstanding shares of Common Stock; provided that such obligation shall not arise until the aggregate Beneficial Ownership by Holdings and its Affiliates is greater than 15.35% of the total number of issued and outstanding shares of Common Stock; provided further that the Guarantor and the Investor shall promptly notify the Company upon receipt of notification of or becoming aware of the fact that Holdings and its Affiliates (including the Guarantor, the Investor and their respective Affiliates) Beneficially Own more than 15% of the total number of issued and outstanding shares of Common Stock. Any such sale pursuant to this Section 4.01(c) shall (subject to the sale restrictions set forth in Section 5.07(b)) occur not more than ninety (90) days after Guarantor, Investor or their respective Affiliates are notified of, or otherwise become aware of, the fact that Holdings and its Affiliates in the aggregate Beneficially Own more than 15% of the total number of issued and outstanding shares of Common Stock. Sales pursuant to this Section 4.01(c) (i) shall be made without regard to the restrictions set forth in Section 4.02(a) and (ii) shall not be subject to the restrictions with respect to minimum or maximum aggregate proceeds set forth in Section 5.01(b)(iii) or Section 5.02(a).

(d) Neither the Investor nor the Guarantor will request, directly or indirectly, that the Company (or its Affiliates, directors, officers, employees, agents or representatives) terminate, amend, modify or waive any provision of this ☒Section 4.01. The Investor and the Guarantor shall promptly notify the Company of any material communications or material inquiry made to any of its executive officers or directors with respect to any matter set forth in Section 4.01(a).

Section 4.02 Dispositions.

(a) Lockup Period. Each of the Investor and the Guarantor agrees that during the Lockup Period, without the prior written consent of the Company, neither the Investor nor the Guarantor shall, nor shall either of them authorize, permit or direct their Affiliates to, directly or indirectly, Transfer any Equity Securities for which the Lockup Period has not expired, provided, however, that this Section 4.02(a) will cease to apply:

(i) On the six month anniversary of the Closing Date, with respect to 2.5% of the Shares.

(ii) On the first anniversary of the Closing Date, with respect to an additional 5% of the Shares.

(iii) On the second anniversary of the Closing Date, with respect to an additional 15% of the Shares.

(iv) On the third anniversary of the Closing Date, with respect to an additional 20% of the Shares.

(v) On the fourth anniversary of the Closing Date, with respect to an additional 27.5% of the Shares.

(b) Termination of Lockup Period. On the fifth anniversary of the Closing Date, all remaining restrictions set forth in Section 4.02(a) shall cease to apply.

(c) Government Required Transfers/Regulatory Matters. Notwithstanding clauses (a) and (b) above, from and after the Closing Date, the Investor may Transfer any Common Stock it holds in order to comply with the requirements of any U.S. Governmental Entity or in furtherance of Section 4.03(b).

(d) Restricted Entity Transferees.

(i) During the term of this Agreement, each of the Investor and the Guarantor agrees that it shall not, and shall not allow any of its Affiliates to, Transfer, directly or indirectly, any Equity Securities knowingly to any Person identified in that certain restricted entity list (the “Restricted Entity List”),

delivered to the Investor pursuant to Section 6.05 of the Stock Purchase Agreement, as such letter may be amended from time to time in accordance with ☒Section 4.02(d)(ii) (collectively, "Restricted Entities"), or to any Affiliate of any such Person (Restricted Entities and their respective Affiliates collectively, "Restricted Entity Transferees"), and any such Transfer shall be null and void; provided, however, that the foregoing shall not prohibit any sale of Equity Securities through open market brokerage transactions where the identity of the purchaser is unknown (and, for the avoidance of doubt, Investor shall have no duty of inquiry in connection with such brokerage transactions).

(ii) The Restricted Entity List identifies the Restricted Entities as of the date hereof. Following consultation with the Investor, the Company may amend the Restricted Entity List following the date hereof to add or remove Restricted Entities from such Restricted Entity List, each such amendment to be effective upon delivery of written notice thereof to the Investor, provided that (x) any Person so added to the Restricted Entity List as a Restricted Entity must be a material direct competitor of the Company in one of its principal lines of business, as determined in good faith by the Company, (y) there shall not be more than ten (10) Restricted Entities in total identified on the Restricted Entity List at any time, and (z) the Company may not amend the Restricted Entity List (A) prior to the six-month anniversary of the Closing, or (B) more than twice per each twelve-month period thereafter.

(e) 5% Threshold. During the term of this Agreement, each of the Guarantor and the Investor agrees that it shall not, and shall not allow any of their Affiliates to, Transfer, directly or indirectly, any Equity Securities knowingly to any Person or 13D Group that (i) would Beneficially Own more than 5% of any class of Equity Securities following such Transfer, or (ii) to the knowledge of the Investor, after reasonable inquiry, is seeking to Beneficially Own more than 5% of any class of Equity Security, and any such Transfer shall be null and void; provided, however, that the foregoing shall not prohibit any sale of Equity Securities through open market brokerage transactions where the identity of the purchaser is unknown (and, for the avoidance of doubt, Investor shall have no duty of inquiry in connection with such brokerage transactions).

(f) Permitted Transfers. Notwithstanding the foregoing, Transfer of Equity Securities by the Investor (or any Permitted Transferee) (i) to the Guarantor or, with the prior written consent of the Company, not to be unreasonably withheld, conditioned or denied, to any Subsidiary of the Guarantor (each, a "Permitted Transferee"), or (ii) to a third party pursuant to a tender offer, exchange offer, merger, consolidation or other transaction (A) which is recommended to the stockholders of the Company by the Board of Directors; and (B) in the case of a merger or other business combination transaction, which has been approved by the stockholders of the Company (each, a "Permitted Transfer"), shall be permitted.

(g) Certain Transfers in Connection with Pledges of Equity Securities. Notwithstanding the foregoing, (i) a Transfer of Equity Securities by the Investor in connection with any pledge, encumbrance, hypothecation, mortgage or other similar arrangement in connection with a financing by the Guarantor or the Investor, or any refinancing in respect thereof, (ii) a Transfer of Equity Securities by any Person holding a security interest in the Equity Securities in connection with a financing by the Guarantor or the Investor for the purpose of seeking repayment of all or a portion of any credit extended in connection with any such financing or refinancing, or (iii) a Transfer of Equity Securities that have been pledged by the Investor for the purpose of repaying any credit extended in connection with any such financing or refinancing when the Guarantor or the Investor is in default thereunder.

Section 4.03 Further Regulatory Matters.

(a) For a period commencing on the date of this Agreement and ending on the first anniversary of this Agreement, the Investor and the Guarantor shall not, and shall cause their Affiliates not to, consummate any (A) merger, consolidation, combination, share exchange, acquisition of assets, securities or similar transaction that would result in the Investor, the Guarantor or such Affiliate, as the case may be, acquiring Beneficial Ownership of a majority of the assets or equity securities of any of the companies listed on the Restricted Entity List (without regard to any amendment contemplated by Section 4.02(d)(ii)), or (B) any transaction that would result in the Investor, the Guarantor or such Affiliate, as the case may be, acquiring Beneficial Ownership of equity securities and the right to nominate a member of the board of directors of any of the companies listed on the Restricted Entity List (without regard to any amendment contemplated by Section 4.02(d)(ii)).

(b) If, at any time prior to the first anniversary of the date hereof, (x) Tsinghua Holdings Co., Ltd., a Chinese corporation ("Holdings") or any of its Affiliates (including for this purpose the Investor and the Guarantor and their Affiliates) shall consummate any merger, consolidation, combination, share exchange, acquisition of assets or securities or similar transaction that results in Holdings or such Affiliate acquiring Beneficial Ownership of any of the assets or equity securities of any of the companies listed on the Restricted Entity List (without regard to any amendment contemplated by Section 4.02(d)(ii)) or any of such companies' subsidiaries, and (y) the Company or any Subsidiary shall consummate or enter into a definitive agreement to consummate any merger, consolidation, combination, share exchange, acquisition of assets or securities or similar transaction that results in the Company or such Subsidiary acquiring Beneficial Ownership of any of the assets or equity securities of any other Person, (any transaction described in this clause (y), a "Future Transaction"), then, subject to Section 5.07(b), the Investor and the Guarantor shall, and shall cause their Affiliates to, take any of the following actions or combination of such actions to the extent necessary to resolve all Future Transaction Impediments: (i) waiving rights under this Agreement, (ii) disposing of assets or securities of, and/or changing the terms of agreements, relationships or transactions with, any Person other than the Company and any Subsidiary, (iii) disposing

of Equity Securities and or equity securities of any of the Company or any of its Affiliates, or (iv) agree to any consent decree or other agreement with respect to the operation of the business (of the Investor, Guarantor or their Affiliates. "Future Transaction Impediments" means, with respect to any proposed Future Transaction, Impediments to such Future Transaction under the HSR Act, the Clayton Act, and any other applicable Antitrust Laws to the extent such Impediments arise out of or relate to the assets or business to be acquired by the Company or its Subsidiary in the Future Transaction, on the one hand, assets, securities or business acquired by Holdings or any of its subsidiaries as described in clause (x) above, on the other hand.

(c) Subject to the consent of the counterparty in any pending potential material transaction discussions ("Transaction Discussions") the Company agrees to disclose to the Investor and the Guarantor such Transaction Discussions, provided that the Investor agrees in writing that the Investor does not have any disclosure obligations that require any disclosure or reference of any kind to the Transaction Discussions and that the Guarantor will not make any disclosure of any kind with respect to or reference to the Transaction Discussions to any Person (including, without limitation, Affiliates of the Guarantor).

(d) Sales of Equity Securities (i) may be made in furtherance of Section 4.03(b) without regard to the restrictions set forth in Section 4.02(a) and (ii) shall not be subject to the restrictions with respect to minimum or maximum aggregate proceeds set forth in Section 5.01(b)(iii) or Section 5.02(a).

ARTICLE 5

REGISTRATION RIGHTS

Section 5.01 Shelf Registration.

(a) The Investor may request, not earlier than ninety (90) days in advance of, and not later than thirty (30) days following, the six-month anniversary of Closing and each of the first five anniversaries of Closing, that the Company shall file with the SEC, and the Company shall file with the SEC on the later of (i) six (6) months after the Closing Date and (ii) ninety (90) days following receipt of any such request (each, a "Shelf Date"), so long as the Company is eligible to do so, a Registration Statement providing for registration and resale, on a continuous or delayed basis pursuant to Rule 415 under the Securities Act, as such rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC, of all of the Registrable Securities (or such lesser number or dollar amount as the Investor may request) that are not, at the time such Shelf Registration Statement goes effective, subject to the restrictions set forth in Section 4.02(a) of this Agreement, provided that such obligation shall be satisfied if the Company shall have in effect an effective shelf registration statement on Form S-3 (or any comparable or successor form or forms then in effect) (any such registration statement, a "Shelf Registration Statement") that registers resale of

such Registrable Securities. The Shelf Registration Statement shall be on Form S-3 (or any comparable or successor form or forms then in effect) under the Securities Act; provided, however, that if the Company is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) at the time of filing of the Shelf Registration Statement with the SEC, such Shelf Registration Statement shall be designated by the Company as an automatic shelf registration statement (as defined in Rule 405 under the Securities Act). The Company shall use its commercially reasonable efforts to keep any Shelf Registration Statement continuously effective under the Securities Act until the earlier of (i) the time all Registrable Securities included in such Registration Statement having been sold and (ii) the time the Investor no longer holds any Registrable Securities. If the Shelf Registration Statement is not automatically effective, the Company shall use commercially reasonable efforts to cause the Shelf Registration Statement to become effective, as promptly as practicable, but in no event later than one hundred twenty (120) days following the filing of the Shelf Registration Statement.

(b) The Investor agrees that if it wishes to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus, it will do so in accordance with this Section 5.01(b) and Section 5.05. In the event the Investor wishes to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus, whether in an underwritten offering or otherwise that would require action by the Company pursuant to Section 5.01(b)(i), the Investor agrees to notify the Company of such intent (a "Shelf Take-Down Notice") and shall deliver a Shelf Take-Down Notice at least twenty (20) Business Days prior to any intended sale of Registrable Securities under the Shelf Registration Statement, it being agreed that if the Investor intends to sell any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall reasonably cooperate with the Investor to facilitate such sale, including with respect to the actions required pursuant to Section 5.05(a)(vii) and, if a Company Supported Distribution is requested, Section 5.05(a)(xiii). From and after the date the Shelf Registration Statement is declared or deemed effective, the Company shall, as promptly as practicable after the date of the Shelf Take-Down Notice:

(i) if required by applicable Law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable Law, file a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other required document so that the Investor is named as a selling security holder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit the Investor to deliver or be deemed to have delivered such Prospectus to purchasers of Registrable Securities in accordance with applicable Law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use commercially reasonable efforts to cause such post-effective amendment to be declared or deemed effective under the Securities Act as promptly as practicable;

(ii) provide the Investor copies of any documents filed pursuant to Section 5.01(b)(i); and

(iii) notify the Investor as promptly as practicable after the effectiveness under the Securities Act of any post-effective amendment filed pursuant to Section 5.01(b)(i); provided, however, that if such Shelf Take-Down Notice is delivered during a Suspension Period, the Company shall so inform the Investor and shall take the actions set forth in clauses (i) and (ii) above promptly upon expiration of the Suspension Period in accordance with Section 5.05; provided, further, that the Investor shall not be entitled to deliver to the Company more than one (1) Shelf Take-Down Notice in any twelve (12) month period (or within twelve (12) months of delivering a Demand Notice) and each Shelf Take-Down Notice may only be delivered if the sale of the Registrable Securities covered thereby is reasonably expected to result in aggregate gross cash proceeds in excess of One Hundred Million Dollars ($100,000,000) (without regard to any underwriting discount or commission) and, provided, further, that the Investor shall not be entitled to request more than three (3) Company Supported Distributions in the aggregate (including Company Supported Distributions with respect to offerings under Section 5.02 herein; provided, however that in the event the Investor is required to sell shares of Common Stock pursuant to Section 4.03(b), and elects to sell such shares of Common Stock pursuant to a Company Supported Distribution, such Company Supported Distribution shall not count against the limit on the number of Company Supported Distributions set forth in this Section 5.01(b)(iii)). A Shelf Take-Down Notice may not be delivered to the Company without its prior written consent (not to be unreasonably withheld, delayed or conditioned) if the sale of the Registrable Securities covered thereby is reasonably expected to exceed the greater of (i) the value of twelve million five hundred thousand (12,500,000) Shares at the time of the sale or (ii) One Billion Dollars ($1,000,000,000).

(c) If any of the Registrable Securities to be sold pursuant to a Shelf Registration Statement are to be sold in a firm commitment underwritten offering which underwritten offering was initially requested by the Investor pursuant to a Shelf Take-Down Notice, and the managing underwriter of such underwritten offering advises the Investor that it is its good faith opinion that the total number or dollar amount of Registrable Securities proposed to be sold in such offering, together with any Other Securities proposed to be included by the Company or holders thereof which are entitled to include securities in such Registration Statement, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price of the Common Stock or the price, timing or distribution of the Registrable Securities to be so included, together with all such Other Securities, then there shall be included in such firm commitment underwritten offering not more than the number or dollar amount of Registrable Securities and such Other Securities that in the opinion of such managing underwriter can be sold without so adversely affecting such offering or the price of the

Common Stock, and such number or dollar amount of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

(i) first, the Registrable Securities for which inclusion in such underwritten offering was requested by the Investor;

(ii) second, such number of Other Securities to be sold by the Company as the Company, acting in good faith, shall have determined; and

(iii) third, among any holders of Other Securities, pro rata, based on the number or dollar amount of Other Securities Beneficially Owned by each such holder of Other Securities.

(d) The Investor shall have the right to notify the Company that it has determined that the Shelf Take-Down Notice be abandoned or withdrawn, in which event the Company shall promptly abandon or withdraw all activities undertaken in connection with such Shelf Take-Down Notice, and such withdrawn Shelf Take-Down Notice shall not count against the limit of Shelf Take-Down Notices or Company Supported Distributions, as applicable; provided, however, that the Company shall not be required to pay for expenses of any registration proceeding begun pursuant to Section 5.01(a), which has been subsequently abandoned or withdrawn pursuant to this Section 5.01(d) at the request of the Investor, and shall be reimbursed by the Investor for reasonable and documented out-of-pocket expenses (including legal fees and printing expenses) so incurred, unless the withdrawal is based upon material adverse information concerning the Company that the Company has not (i) disclosed to the Investor or (ii) publicly disclosed in compliance with applicable securities Laws prior to the date of the Shelf Take-Down Notice.

(e) In the event that the securities that may be registered on a particular Shelf Registration Statement is limited by the SEC or otherwise by applicable Law, the Company may reduce the number or dollar amount of securities to be registered on such Shelf Registration Statement to such number or dollar amount of securities as allowed by the SEC and applicable Law.

(f) Notwithstanding anything contained herein to the contrary, with the prior written consent of the Investor (which consent shall not be unreasonably withheld, conditioned or delayed), the Company shall be entitled to coordinate (but not in violation of Section 5.01) any offerings under this Section 5.01 with any offerings to be effected pursuant to similar agreements with the holders of Other Securities, including, if practicable, by filing one Registration Statement for the Registrable Securities and all Other Securities.

Section 5.02 Demand Registration.

(a) At any time following the six month anniversary of the Closing, if the Company is unable to file, cause to be effective or maintain the effectiveness of a Shelf Registration Statement as required under Section 5.01, the Investor shall have the right, by delivering a written notice to the Company (a "Demand Notice"), to require the Company to register under and in accordance with the provisions of the Securities Act the number of Registrable Securities Beneficially Owned by the Investor that are not, at the time such Demand Notice is received by the Company, subject to the restrictions of ☒Section 4.02(a) of this Agreement and requested by the Investor in such Demand Notice to be so registered (a "Demand Registration"); provided, however, that (i) the Company shall not be required to effect more than three (3) Demand Registrations for underwritten offerings pursuant to this Section 5.02(a); (ii) the Company shall not be required to effect a Demand Registration if the Investor has sold Registrable Securities pursuant to a Shelf Registration Statement within the preceding twelve (12) month period; (iii) the Investor shall not be entitled to deliver to the Company more than two (2) Demand Registrations in any twelve (12) month period; and (iv) a Demand Registration may not be made until at least one hundred and twenty (120) days after the date of a prior Demand Registration, and, in any event, a Demand Notice may only be made if the sale of the Registrable Securities requested to be registered by the Investor is reasonably expected to result in aggregate gross cash proceeds in excess of One Hundred Million Dollars ($100,000,000) (without regard to any underwriting discount or commission); and provided, further, that the Investor shall not be entitled to request more than three (3) Company Supported Distributions in the aggregate (including Company Supported Distributions with respect to offerings under Section 5.01 of this Agreement; provided, however that in the event the Investor is required to sell shares of Common Stock pursuant to Section 4.03(b), and elects to sell such shares of Common Stock pursuant to a Company Supported Distribution, such Company Supported Distribution shall not count against the limit on the number of Company Supported Distributions set forth in this Section 5.02(a)). A Demand Registration may not exceed the greater of (i) the value of twelve million five hundred thousand (12,500,000) Shares or (ii) One Billion Dollars ($1,000,000,000) without the Company's prior written consent (not to be unreasonably withheld, delayed or conditioned). A Demand Notice shall also specify the expected method or methods of disposition of the applicable Registrable Securities. Following receipt of a Demand Notice, the Company shall use commercially reasonable efforts to file, as promptly as reasonably practicable, but not later than ninety (90) days after receipt by the Company of such Demand Notice, a Registration Statement relating to the offer and sale of the Registrable Securities requested to be included therein by the Investor in accordance with the methods of distribution elected (a "Demand Registration Statement") and shall use commercially reasonable efforts to cause such Registration Statement to be declared effective under the Securities Act as promptly as practicable after the filing thereof, but in no event later than one hundred twenty (120) days following the date of filing the Registration Statement, it being agreed that if the Investor intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall cooperate with the Investor to facilitate such distribution, including the actions required pursuant to Section 5.05(a)(vii) and, if a Company Supported Distribution is requested, Section 5.05(a)(xiii).

(b) If any of the Registrable Securities registered pursuant to a Demand Registration are to be sold in a firm commitment underwritten offering, and the managing underwriter of such underwritten offering advises the Investor in writing that it is its good faith opinion that the total number or dollar amount of Registrable Securities proposed to be sold in such offering, together with any Other Securities proposed to be included by the Company or holders thereof which are entitled to include securities in such Registration Statement, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price, timing or distribution of the Registrable Securities to be so included together with all such Other Securities, then there shall be included in such firm commitment underwritten offering the number or dollar amount of Registrable Securities and such Other Securities that in the opinion of such managing underwriter can be sold without so adversely affecting such offering or the price of the Common Stock, and such number of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

(i) first, the Registrable Securities for which inclusion in such underwritten offering was requested by the Investor;

(ii) second, such number or dollar amount of Other Securities to be sold by the Company as the Company, acting in good faith, shall have determined; and

(iii) third, among any holders of Other Securities, pro rata, based on the number or dollar amount of Other Securities Beneficially Owned by each such holder of Other Securities.

(c) In the event of a Demand Registration, the Company shall be required to maintain the continuous effectiveness of the applicable Registration Statement for a period of at least thirty (30) days after the effective date thereof or such shorter period in which all Registrable Securities included in such Registration Statement have actually been sold.

(d) The Investor shall have the right to notify the Company that it has determined that the Registration Statement relating to a Demand Registration be abandoned or withdrawn with respect to Registrable Securities, in which event the Company shall promptly abandon or withdraw such Registration Statement with respect to Registrable Securities and such abandoned or withdrawn registration shall not count against the limit of Demand Registrations or Company Supported Distributions, as applicable; provided, however, that the Company shall not be required to pay for expenses of any registration proceeding begun pursuant to Section 5.02(a), which has been subsequently abandoned or withdrawn pursuant to this Section 5.02(d) at the request of the Investor, and shall be reimbursed by the Investor for reasonable and documented out-of-pocket expenses (including legal fees and printing expenses) so incurred, unless the withdrawal is based upon material information concerning the Company that the

Company has not (i) disclosed to the Investor or (ii) publicly disclosed prior to the date of the Demand Notice.

(e) Notwithstanding anything contained herein to the contrary, with the prior written consent of the Investor (which consent shall not be unreasonably withheld, conditioned or delayed), the Company shall be entitled to coordinate (but not in violation of Section 5.02) any offerings under this Section 5.02 with any offerings to be effected pursuant to similar agreements with the holders of Other Securities, including, if practicable, by filing one Registration Statement for all Other Securities.

(f) In the event that the number or dollar amount of securities to be registered in a particular Demand Registration is limited by the SEC or otherwise under applicable Law, the Company may reduce the number or dollar amount of securities to be registered in such Demand Registration to such number or dollar amount of securities as allowed by the SEC and applicable Law.

Section 5.03 Piggyback Registration.

(a) If the Company proposes to file a registration statement under the Securities Act with respect to an offering (i) by the Company for its own account (other than a registration statement (A) on Form S-4, Form S-8 or any successor forms thereto, (B) filed solely in connection with any employee benefit, dividend reinvestment, or any other similar plan, (C) filed solely in connection with any business combination or similar transaction or (D) for the purpose of effecting a rights offering afforded to all holders of the Shares) or (ii) for the account of any of its security holders, the Company will give the Investor written notice of such filing at least ten (10) Business Days' prior to the anticipated filing date (the "Piggyback Notice"). The Piggyback Notice shall offer the Investor the opportunity to include in such registration statement the number or dollar amount of Registrable Securities (for purposes of this Section 5.03, "Registrable Securities" shall be deemed to mean solely securities of the same class as those proposed to be offered for the account of the Company or its security holders) as they may request that are not, at the time of such Piggyback Notice, subject to the restrictions set forth in Section 4.02(a) of this Agreement (a "Piggyback Registration"). Subject to ☒Section 5.03(b), the Company shall include in each such Piggyback Registration all Registrable Securities with respect to which the Company has received a written request from the Investor for inclusion therein within five (5) Business Days after notice has been given to the Investor. The Company shall be required to maintain the effectiveness of the Registration Statement for a Piggyback Registration for a period of at least thirty (30) days after the effective date thereof or such shorter period in which all Registrable Securities included in such Registration Statement have actually been sold.

(b) If any of the securities to be registered pursuant to the registration giving rise to the Investor's rights under this Section 5.03 are to be sold in an underwritten offering, the Investor shall be permitted to include all Registrable Securities requested to be included in such registration in such offering on the same terms and conditions as the

Other Securities included therein; provided, however, that if such offering involves a firm commitment underwritten offering and the managing underwriter of such underwritten offering advises the Investor in writing that it is its good faith opinion that the total number or dollar amount of Registrable Securities proposed to be sold in such offering, together with all Other Securities that the Company and any other Persons having rights to participate in such registration intend to include in such offering, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price, timing or distribution of the Registrable Securities to be so included together with all such Other Securities, then there shall be included in such firm commitment underwritten offering the number or dollar amount of Registrable Securities and such Other Securities that in the opinion of such managing underwriter can be sold without so adversely affecting such offering, and such number or dollar amount of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

(i) if the Piggyback Registration relates to an offering for the Company's own account, then (A) first, such number or dollar amount of Other Securities to be sold by the Company as the Company, acting in good faith, shall have determined, (B) second, the Registrable Securities for which inclusion in such underwritten offering was requested by the Investor, and (C) third, among all other holders of Other Securities, pro rata, based on the number or dollar amount of Other Securities Beneficially Owned by each such holder of Other Securities; or

(ii) if the Piggyback Registration relates to an offering other than for the Company's own account, then (A) first, shares of Common Stock sought to be registered by the Person exercising a contractual right to demand registration, (B) second, such number or dollar amount of Other Securities to be sold by the Company as the Company, acting in good faith, shall have determined, (C) third, the Registrable Securities for which inclusion in such underwritten offering was requested by the Investor, and (D) fourth, among all other holders of Other Securities, pro rata, based on the number or dollar amount of Other Securities Beneficially Owned by each such holder of Other Securities.

(c) The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 5.03 prior to the effectiveness of the related Registration Statement and shall have no obligation to register any Registrable Securities in connection with such registration. The Registration Expenses of such withdrawn Piggyback Registration shall be borne by the Company in accordance with Section 5.04. The Investor shall have the right to withdraw its request for inclusion of its Registrable Securities in any Piggyback Registration by giving written notice to the Company of its request to withdraw at least two (2) Business Days prior to the planned effective date of the related Registration Statement; provided, however, that the Company shall not be required to pay for expenses relating to the proposed inclusion of the Investor's Registrable Securities in such Piggyback Registration, and shall be reimbursed by the Investor for reasonable and documented out-of-pocket expenses (including legal fees and

printing expenses) so incurred, unless the withdrawal is based upon material information concerning the Company that the Company has not (i) disclosed to the Investor or (ii) publicly disclosed in compliance with applicable securities Laws prior to the date of the Piggyback Notice.

(d) In the event that the number or dollar amount of securities that may be registered in a particular Piggyback Registration is limited by the SEC or otherwise applicable Law, the Company may reduce the number or dollar amount of securities to be registered in such Piggyback Registration to such number or dollar amount of securities as allowed by the SEC and applicable Law. Any such reduction shall be done in accordance with the priorities set out in Section 5.03(b).

Section 5.04 Registration Expenses.

(a) Expenses of the Company. Except to the extent otherwise provided herein, in connection with registrations pursuant to Section 5.01, Section 5.02, or Section 5.03, the Company shall pay all of the registration expenses incurred in connection with the registration thereunder (the "Registration Expenses"), including, without limitation, all: (i) reasonable registration and filing fees, (ii) Financial Industry Regulatory Authority, Inc. fees, (iii) printing expenses, (iv) fees and disbursements of the Company's counsel, (v) blue sky fees and expenses, (vi) expenses of the Company's independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, (vii) expenses incurred in connection with making road show presentations and holding meetings with potential investors and (viii) up to fifty thousand dollars ($50,000) of reasonable fees and disbursements of one firm of attorneys acting as counsel of the Investor.

(b) Expenses of the Investor. The Investor shall be responsible for (i) any allocable underwriting fees, discounts or commissions, (ii) any allocable commissions of brokers and dealers, (iii) fees and disbursements of the Investor's counsel other than as provided in Section 5.04(a), and (iv) capital gains, income and transfer taxes, if any, relating to the sale of Registrable Securities of the Investor.

Section 5.05 Registration Procedures.

(a) In connection with the registration of any Registrable Securities pursuant to this Agreement, the Company will keep the Investor advised in writing as to the initiation of each such registration and the Company will:

(i) Use commercially reasonable efforts to keep each Registration Statement continuously effective during the period such Registration Statement is required to remain effective pursuant to the terms of this Agreement; upon the occurrence of any event that would cause the Registration Statement or the Prospectus contained therein (A) to contain a material misstatement or omission or (B) not to be effective and usable for resale of Registrable Securities, during

the period such Registration Statement is required to remain effective pursuant to the terms of this Agreement, the Company shall, upon request of the Investor, file promptly an appropriate amendment to the Registration Statement, a supplement to the Prospectus or a report filed with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, in the case of clause (A), correcting any such misstatement or omission, and, in the case of either clause (A) or (B), the Company shall use commercially reasonable efforts to cause any such amendment to be declared or deemed effective and the Registration Statement and the related Prospectus to become usable for their intended purposes as soon as practicable thereafter.

(ii) Notwithstanding anything to the contrary contained herein, the Company may delay filing or suspend the effectiveness of a Registration Statement and the Investor's right to sell thereunder (each such period, a "Suspension Period") if (A) the Company is pursuing an acquisition, merger, reorganization, disposition or similar transaction and the Company determines in good faith that the Company's ability to pursue or consummate such a transaction would be materially adversely affected by any required disclosure of such transaction in the registration statement, or (B) the Company has experienced some other material non-public event the disclosure of which at such time could reasonably be expected to materially adversely affect the Company; provided that the Company may not take any such action pursuant to this Section 5.05(a)(ii) for a period of time in excess of one hundred and twenty (120) days in the aggregate in any twelve (12) month period and the Company shall coordinate any such Suspension Period with the Investor to the extent practicable.

(iii) Advise the Investor, promptly (which notice pursuant to clauses (B) through (D) below shall be accompanied by an instruction to suspend the use of the Prospectus until the Company shall have remedied the basis for such suspension and promptly thereafter notified the Investor of such remediation):

(A) when the Prospectus or any Prospectus supplement or post-effective amendment is proposed to be or has been filed, and, with respect to the Registration Statement or any post-effective amendment thereto, when the same has become effective;

(B) of any request by the SEC or any other Governmental Entity received by the Company for amendments to the Registration Statement or amendments or supplements to the Prospectus or for additional information relating thereto; provided, however, that the Company shall not be required to provide copies of any confidential treatment requests or correspondence relating thereto to the Investor;

(C) of the issuance by the SEC of any stop order received by the Company suspending the effectiveness of the Registration Statement

under the Securities Act or of the suspension by any state securities commission of the qualification of the Registrable Securities for offering or sale in any jurisdiction, or the threatening or initiation of any proceeding for any of the preceding purposes;

(D) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; or

(E) of the existence of any fact or the happening of any event, during the pendency of a distribution of Registrable Securities pursuant to a Registration Statement, that makes any statement of a material fact made in such Registration Statement, the Prospectus, any amendment or supplement thereto, or any document incorporated by reference therein untrue, or that requires the making of any additions to or changes in the Registration Statement or the Prospectus in order to make the statements therein not misleading.

(iv) Unless any Registrable Securities shall be in book-entry form only, cooperate with the Investor to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends (unless required by applicable Laws), and enable such Registrable Securities to be in such denominations and registered in such names as the Investor may request at least two (2) Business Days before any sale of Registrable Securities.

(v) Use commercially reasonable efforts to promptly register or qualify any Registrable Securities under such other securities or blue sky laws of such jurisdictions within the United States as any Investor reasonably requests and which may be reasonably necessary or advisable to enable such Investor to consummate the disposition in such jurisdictions of the Registrable Securities owned by such Investor, keep such registrations or qualifications in effect for so long as the applicable Registration Statement is required to remain in effect and do any and all other acts and things which may be reasonably necessary or advisable to enable such Investor to consummate the disposition in such jurisdictions of the Registrable Securities owned by such Investor; provided, however, that the Company will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Agreement, (B) subject itself to taxation in any jurisdiction where it would not otherwise be subject to taxation but for this Agreement or (C) consent to general service of process in any jurisdiction where it would not otherwise be subject to such service but for this Agreement.

(vi) Use commercially reasonable efforts to promptly cause any Registrable Securities covered by a Registration Statement to be registered with or approved by such other Governmental Entity within the United States as may be necessary to enable the Investor to consummate the disposition of such Registrable Securities in accordance with the intended methods of disposition set forth in such Registration Statement.

(vii) In the event that the Investor advises the Company that the Investor intends to distribute any Registrable Securities by means of an underwritten offering, whether pursuant to Section 5.01 or Section 5.02, enter into an underwriting agreement in customary form, scope and substance (including customary representations, warranties, covenants and indemnifications) and take all such other actions reasonably requested by the Investor or by the managing underwriter, if any, to expedite or facilitate the underwritten disposition of such Registrable Securities and deliver such documents and certificates as may be reasonably requested by the Investor, its counsel and the managing underwriter, if any.

(viii) Use its commercially reasonable efforts to prevent, or obtain the withdrawal of, any stop order or other order suspending the use of any Prospectus.

(ix) Deliver to the Investor and each underwriter, if any, without charge, as many copies of the applicable Prospectus and any amendment or supplement thereto as the Investor or underwriter may reasonably request.

(x) Cooperate with the Investor and the underwriters, if any, of such Registrable Securities and their respective counsel in connection with any filings required by applicable Law to be made with FINRA.

(xi) Obtain opinions of counsel to the Company and updates thereof addressed to the underwriters or initial purchasers, if any, covering matters as are customarily requested in opinions covering secondary resale offerings of companies of comparable size, maturities and lines of business as the Company.

(xii) Obtain “comfort” letters and updates thereof from the Company’s independent certified public accountants, such letters covering matters as are customarily requested in comfort letters covering secondary resale offerings of companies of comparable size, maturities and lines of business as the Company.

(xiii) Only in the case of a Company Supported Distribution, as requested by the managing underwriter in any such underwritten offering, provide reasonable assistance with the marketing of any such offering, including causing members of the Company’s management team to participate in a reasonable and customary number of conference calls, investor meetings and due diligence sessions, in each case and, to the extent to be in-person, to take place in the

continental United States; provided, that any such requested assistance shall not be required if it would, in the Company's reasonable judgment, interfere with the normal business operations of the Company in any substantial respect.

(b) The Investor agrees by acquisition of a Registrable Security that the Investor shall not be entitled to sell any of such Registrable Securities pursuant to a Registration Statement, or to receive a Prospectus relating thereto, unless the Investor has furnished the Company with the information set forth in the next sentence at least five (5) Business Days prior to the filing of the applicable Registration Statement or Prospectus. The Company may require the Investor pursuant to a Registration Statement to furnish to the Company such customary information regarding the Investor and the distribution of such Registrable Securities as the Company may reasonably require for inclusion in such Registration Statement. The Investor agrees promptly to furnish to the Company all information required to be disclosed in order to make the information previously furnished to the Company by the Investor not misleading. Any sale of any Registrable Securities by the Investor shall constitute a representation and warranty by the Investor that the information relating to the Investor and its plan of distribution is as set forth in the Prospectus delivered in connection with such disposition, that such Prospectus does not as of the time of such sale contain any untrue statement of a material fact provided in writing by the Investor to the Company for inclusion in the Prospectus and that such Prospectus does not as of the time of such sale omit to state any material fact provided in writing by the Investor to the Company for inclusion in the Prospectus necessary to make the statements in such Prospectus not misleading. The Company may exclude from such Registration Statement the Registrable Securities of the Investor if the Investor fails to furnish such information within a reasonable time after receiving such request. The Company shall not include in any Registration Statement any information regarding, relating to or referring to the Investor or its plan of distribution without the approval of the Investor in writing. Notwithstanding any other provision of this Agreement, the Investor shall also provide the Company as a condition to including Registrable Securities in a Registration Statement, such information as is reasonably requested by the Company in response to the Company's customary questionnaire seeking the information required by the Securities Act.

(c) Without the prior written consent of the Company, the Investor shall not use any Free Writing Prospectus in connection with the sale of Registrable Securities.

(d) Any single offering of Registrable Securities pursuant to any Shelf Registration Statement or any Demand Registration that is reasonably expected to result in aggregate cash proceeds in excess of Two Hundred Million Dollars ($200,000,000) shall be made pursuant to an underwritten offering. The Investor shall determine the managing underwriters for any offering initiated by the Investor, subject to the consent of the Company (which shall not be unreasonably withheld, conditioned or delayed). The Company shall determine the managing underwriters in any Piggyback Registration, subject to the consent of the Investor (which shall not be unreasonably withheld, conditioned or delayed).

Section 5.06 Indemnification.

(a) The Company shall indemnify and hold harmless, to the fullest extent permitted by Law, (1) the Investor if the offer and sale of Registrable Securities are registered by a Registration Statement, (2) each of the Investor's Affiliates, officers, directors, shareholders, employees, advisors, agents, (3) each underwriter (including the Investor if deemed to be an underwriter pursuant to applicable Law), if any, and (4) each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) such underwriter of the Investor (collectively, "Investor Indemnitees"), from and against all losses, claims, damages, liabilities, penalties, judgments, suits, costs and expenses (including reasonable legal fees and disbursements, which shall be reimbursed periodically as incurred) (collectively, "Losses") in connection with any sale of Registrable Securities pursuant to a Registration Statement under this Agreement arising out of or based upon (i) any untrue or alleged untrue statement of a material fact contained in any such Registration Statement or any Prospectus (including preliminary or final) relating to the registration of such Registrable Securities or any amendment or supplement thereto or any document incorporated by reference therein or (ii) any alleged omission to state therein a material fact, in each case required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or Free Writing Prospectus, in the light of the circumstances under which they were made) not misleading; provided, however, that the Company shall not be liable to such Investor Indemnitee in any such case to the extent that any such Loss arises out of or is based upon (A) an untrue statement or alleged untrue statement or omission or alleged omission made in such Registration Statement, including any preliminary or final Prospectus contained therein or any such amendments or supplements thereto, or contained in any Free Writing Prospectus prepared by the Company or authorized by it in writing for use by such Investor Indemnitee (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Investor Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company expressly for use in connection with such Registration Statement, including any such preliminary or final Prospectus contained therein, any such amendments or supplements thereto, or any such Free Writing Prospectus; (B) offers or sales effected by or on behalf of such Investor Indemnitee by means of a Free Writing Prospectus, unless the Company has otherwise consented to the use of such Free Writing Prospectus by such Investor Indemnitee, and subject to the limitations set forth in the preceding clause (A); or (C) the failure of any Investor Indemnitee to deliver or make available to a purchaser of Registrable Securities a copy of any Registration Statement, including any preliminary or final Prospectus contained therein or any amendments or supplements thereto (if the same was required by applicable Law to be delivered or made available); provided that the Company shall have delivered or made available to such Investor Indemnitee such Registration Statement, including such preliminary or final Prospectus contained therein and any amendments or supplements thereto.

(b) In connection with any Registration Statement in which the Investor is participating by registering Registrable Securities, the Investor agrees to indemnify and hold harmless, to the fullest extent permitted by Law, the Company, its Affiliates, the officers, directors, shareholders, advisors, agents, representatives or other employees of the Company, each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) the Company, each underwriter, if any, and each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) such underwriter (collectively, "Company Indemnitees"), from and against all Losses, as incurred, arising out of or based on any untrue or alleged untrue statement of a material fact contained in any such Registration Statement or preliminary or final Prospectus relating to the registration of such Registrable Securities or any amendment or supplement thereto or any document incorporated by reference therein or any Free Writing Prospectus relating thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or Free Writing Prospectus, in the light of the circumstances under which they were made) not misleading, in each case solely to the extent that such untrue or alleged untrue statement or omission or alleged omission is made in such Registration Statement or in any preliminary or final Prospectus contained therein or any such amendments or supplements thereto or contained in any Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company by the Investor expressly for inclusion in such document; provided, however, that in no event shall the liability of the Investor hereunder be greater in amount than the dollar amount of the net proceeds received by the Investor upon the sale of the Registrable Securities under the Registration Statement giving rise to such indemnification obligation.

(c) If any Person shall be entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall give prompt notice to the party from which such indemnity is sought (the "Indemnifying Party") of any claim or of the commencement of any Action with respect to which such Indemnified Party has actual notice and seeks indemnification or contribution pursuant hereto; provided, however, that the delay or failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party from any obligation or liability except to the extent that the Indemnifying Party has been actually prejudiced by such delay or failure. The Indemnifying Party shall have the right, exercisable by giving written notice (including an acknowledgement of its obligation to indemnify the Indemnified Party therefor on the terms set forth herein) to an Indemnified Party promptly after the receipt of written notice from such Indemnified Party of such claim or Action, to assume, at the Indemnifying Party's expense, the defense of any such Action, with counsel reasonably satisfactory to such Indemnified Party; provided, however, that an Indemnified Party shall have the right to employ separate counsel in any such Action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party, unless: (i) the Indemnifying Party agrees to pay such fees and expenses; (ii) the Indemnifying Party fails promptly to assume, or in the event of a conflict of interest cannot assume, the defense of such Action or fails to employ counsel reasonably satisfactory to such Indemnified Party, in which

case the Indemnified Party shall also have the right to employ counsel and to assume the defense of such Action; or (iii) in the Indemnified Party's reasonable judgment a conflict of interest between such Indemnified Party and Indemnifying Party may exist in respect of such Action; provided, further, that the Indemnifying Party shall not, in connection with any one such Action or separate but substantially similar or related Actions in the same jurisdiction, arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one firm of attorneys (together with appropriate local counsel) at any time for all of the Indemnified Parties, or for fees and expenses that are not reasonable.

(d) Neither party shall settle, compromise, discharge or consent to an entry of judgment with respect to a claim or liability subject to indemnification under this Section 5.06 without the other party's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed); provided that the Indemnifying Party may agree without the prior written consent of the Indemnified Party solely to any settlement, compromise, discharge or consent to an entry of judgment, in each case that relates only to money damages and by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such claim and which unconditionally releases the Indemnified Party from all liability in connection with such claim.

(e) If the indemnification provided for in this Section 5.06 is unavailable to hold harmless each of the Indemnified Parties against any Losses to which such parties may become subject under the Securities Act, then the Indemnifying Party shall, in lieu of indemnifying each party entitled to indemnification hereunder, contribute to the amount paid or payable by such party as a result of such Losses in such proportion as is appropriate to reflect (i) the relative benefits received by the Indemnifying Party, on the one hand, and the Indemnified Parties, on the other hand, from the offering or (ii) if the allocation provided by clause (i) above is not permitted by applicable Law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Indemnifying Party, on the one hand, and such Indemnified Parties, on the other hand, in connection with the statements or omissions or alleged statements or omissions that resulted in such Losses. The relative fault of such parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact, or omission or alleged omission to state a material fact, relates to information supplied by or concerning the Indemnifying Party on the one hand, or by such Indemnified Party on the other, and such party's relative intent, knowledge, access to information and opportunity to have corrected or prevented such statement or omission. No Person guilty of fraudulent misrepresentation (within the meaning of the Securities Act) shall be entitled to contribution from any Person that is not guilty of such fraudulent misrepresentation.

Section 5.07 Miscellaneous.

(a) With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable

Securities to the public without registration, the Company agrees, so long as there are outstanding Registrable Securities, to use its commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents as the SEC may prescribe under Section 13(a) or 15(d) of the Exchange Act at any time while the Company is subject to such reporting requirements of the Exchange Act.

(b) Subject to the provisions hereof, in the event that the Company proposes to enter into an underwritten public offering, to the extent requested by the managing underwriters, and provided that the Company and all executive officers (as defined under the Exchange Act) and directors of the Company are also so bound, the Investor agrees to enter into a customary agreement with the managing underwriters not to effect any sale or distribution of equity securities of the Company, or any securities convertible, exchangeable or exercisable for or into such securities, without the consent of the managing underwriters, during the period beginning upon receipt of notice hereunder that the Company intends to conduct an offering of its securities in accordance with the terms hereof and ending ninety (90) days following the effective date of such offering, except pursuant to such offering in accordance with the terms hereof; provided, however, that if any executive officer or director is released by such managing underwriters from its lockup obligations herein, then the Investor shall be so released on a pro rata basis (with the percentage of the Investor's Registrable Securities so released being equal to the percentage of Equity Securities so released for the executive officer or director having the highest percentage of released securities among all of the executive officers or directors). The Company may impose stop-transfer restrictions with respect to the securities subject to the foregoing restriction until the end of the required stand-off period and shall lift such stop-transfer restrictions immediately upon the end of such period.

(c) The registration rights granted to the Investor under this Agreement shall terminate on the date on which the Investor no longer owns Registrable Securities.

(d) Except for this Agreement, the Company is not party to any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities. From and after the date hereof, the Company shall not, without the prior written consent of the Investor, enter into any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities unless such new registration rights, including with respect to underwriters' "cutbacks" and "standoff" obligations, do not conflict with, the registration rights granted to Investor hereunder.

Section 5.08 Interaction with Lockup. Nothing in this Article 5 shall be construed as permitting any Transfer that is prohibited under Section 4.02 and notwithstanding any other provision of this Article 5, the Company shall not be obligated to include in any Registration Statement any securities that remain subject to such restrictions.

ARTICLE 6

TERMINATION

Section 6.01 Termination. Other than the termination provisions applicable to particular Sections of this Agreement that are specifically provided elsewhere in this Agreement, this Agreement shall terminate (a) at any time upon the mutual written agreement of the Company and the Investor and (b) at the latest of (i) such time as the Guarantor, the Investor, and their respective Affiliates cease to Beneficially Own, in the aggregate, at least five percent (5%) of the Equity Securities; (ii) such time as the Investor ceases to own any Registrable Securities, (iii) the fifth anniversary of the Closing Date; and, if applicable (iv) the six-month period set forth in Section 3.01.

ARTICLE 7

MISCELLANEOUS

Section 7.01 Amendment and Modification. This Agreement may not be amended, modified or supplemented except by written agreement of the Company, the Guarantor and the Investor.

Section 7.02 Guarantee.

(a) Guarantees of Guarantor. The Guarantor is executing this Agreement to guarantee the payment and performance (as applicable) by the Investor of its obligations for payment or performance under this Agreement when due (the "Guaranteed Obligations"). The Guarantor hereby guarantees irrevocably and unconditionally and as a primary obligation the Guaranteed Obligations. If the Investor fails or refuses to pay or perform (as applicable) any such Guaranteed Obligations when due for payment or performance in accordance with this Agreement, the Guarantor shall, upon the written request of the Company, immediately pay or perform, as applicable, such Guaranteed Obligations. This guarantee shall apply regardless of any amendments, variations, alterations, waivers or extensions to this Agreement, whether or not the Guarantor received notice of the same and the Guarantor waives all need for notice of the same.

(b) Guarantee Unconditional. The guarantee made by the Guarantor pursuant to this Section 7.02 is a guarantee of payment and performance and not of collection. The obligations of the Guarantor hereunder shall be continuing, absolute and unconditional and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by: (a) any invalidity, illegality or unenforceability against the Investor of this Agreement due to the lack of power or authority of the Investor to enter into or perform this Agreement or as a result of the bankruptcy, insolvency, dissolution, liquidation or reorganization or similar event affecting the Investor; (b) any modification, amendment, restatement, waiver by the Investor or rescission of, or any consent to the departure by the Investor from, any of the terms of this Agreement; (c) any exercise or non-exercise by the Company of any right or privilege under this Agreement and any notice of such exercise or non-exercise; (d) any extension, renewal or waiver by the

Investor of any of its obligations or liabilities under this Agreement, by operation of Law or otherwise, or any assignment of any such obligations or liabilities by the Company; (e) any change in the corporate existence, structure or ownership of the Investor; (f) any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Investor or its assets or any resulting release or discharge of the Investor's obligations or liabilities under this Agreement; (g) any requirement that the Company exhaust any right or remedy or take any action against the Investor or any other Person before seeking to enforce the obligations of the Guarantor under this Section 7.02; (h) the existence of any defense, set-off or other rights that the Guarantor may have at any time against the Company or any other Person, whether in connection herewith or any unrelated transactions; or (i) any suretyship defenses available to a guarantor.

Section 7.03 Titles and Subtitles; Interpretation. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a Section (or Article, Subsection, Paragraph, Subparagraph or Clause), such reference shall be to a section (or article, subsection, paragraph, subparagraph or clause) of, or an exhibit or schedule to, this Agreement. The table of contents and any article, section, subsection, paragraph or subparagraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any reference made in this Agreement to a statute or statutory provision shall mean such statute or statutory provision as it has been amended through the date as of which the particular portion of the Agreement is to take effect, or to any successor statute or statutory provision relating to the same subject as the statutory provision so referred to in this Agreement, and to any then applicable rules or regulations promulgated thereunder. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed, as the context indicates, to be followed by the words "but (is/are) not limited to." The words "herein," "hereof," "hereunder" and words of like import shall refer to this Agreement as a whole, unless the context clearly indicates to the contrary. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context indicates is appropriate. Where specific language is used to clarify or illustrate by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict the construction of the general statement which is being clarified or illustrated.

Section 7.04 Extension; Waiver. The Company, on the one hand, and the Investor and the Guarantor, on the other hand, may (a) extend the time for the performance of any of the obligations or acts of the Investor and the Guarantor or the Company, as applicable, (b) waive any inaccuracies in the representations and warranties of the Investor and the Guarantor or the Company, as applicable, contained herein or in any document delivered pursuant hereto, (c) waive compliance with any of the agreements of the Investor and the Guarantor or the Company, as applicable, contained herein or (d) waive any condition to the obligations the Investor and the Guarantor or the Company, as applicable, hereunder. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed by such party. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy

by any party, and no course of dealing among the parties, shall constitute a waiver of any such right, power or remedy.

Section 7.05 Binding Nature; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, transferred or delegated by any of the parties without prior written consent of the other parties, and any attempt to make any such assignment, transfer or delegation without such consent shall be null and void; provided that the Investor may assign its registration rights under Article 5 in connection with any Permitted Transfer under Section 4.02(f)(i).

Section 7.06 Severability. Any provision of this Agreement that is invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provision of this Agreement invalid, illegal or unenforceable in any other jurisdiction.

Section 7.07 Notices. All notices, requests, consents, waivers and other communications hereunder shall be in writing and shall be deemed given: (a) when delivered if delivered personally (including by courier); (b) on the third day after mailing, if mailed, postage prepaid, by registered or certified mail (return receipt requested); (c) on the day after mailing if sent by an internationally recognized overnight delivery service that maintains records of the time, place, and recipient of delivery; or (d) upon receipt of a confirmed transmission, if sent by telex, telecopy or facsimile transmission or e-mail, in each case to the other parties at the following addresses, facsimile numbers or e-mail addresses or to such other addresses as may be furnished in writing by one party to the others:

(a) if to the Investor or the Guarantor to:

Unisplendour Corporation Limited
9/F Unis Plaza, Tsinghua Science Park
Beijing, China 100084
Attn: Wei Zhang, VP
Facsimile: +86 10 6277.0880
Email: zw@thunis.com

with a copy (which shall not constitute notice) to:

Hogan Lovells US LLP
555 Thirteenth Street, NW
Washington, DC 20004
Attention: J. Warren Gorrell
Facsimile +1 202 637 5910
Email: warren.gorrell@hoganlovells.com
Attention: Glenn C. Campbell

Facsimile: +1 202 637 5910
Email: glenn.campbell@hoganlovells.com
Attention: Elizabeth M. Donley
Facsimile: +1 202 637 5910
Email: elizabeth.donley@hoganlovells.com

Hogan Lovells International LLP
31st Floor, Tower 3, China Central Place
No. 77 Jianguo Road
Chaoyang District
Beijing 100025
Attention: Jun Wei
Facsimile: +86 10 6582 9499
Email: jun.wei@hoganlovells.com

(b) if to the Company:

Western Digital Corporation
3355 Michelson Drive, Suite 100
Irvine, California 92612
Attention: General Counsel
Facsimile: (949) 672-9612
E-mail: Michael.Ray@wdc.com

with a copy (which shall not constitute notice) to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Attention: Neil Whoriskey
Facsimile: (212) 225-3999
E-mail: nwhoriskey@cgsh.com
Attention: Adam Fleisher
Facsimile: (212) 225-3999
E-mail: afleisher@cgsh.com
Attention: Matthew Salerno
Facsimile: (212) 225-3999
E-mail: msalerno@cgsh.com

Section 7.08 Governing Law. This Agreement and the legal relations among the parties shall be governed by and construed in accordance with the Laws of the State of New York without giving effect to any Law or rule that would cause the Laws of any jurisdiction other than the State of New York to be applied.

Section 7.09 Complete Agreement. This document and the documents referred to herein contain the complete agreement between the parties and supersede any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

Section 7.10 No Third-Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns and, except for such rights as shall inure to any Indemnified Party pursuant to Section 5.06 (with the exception of any underwriter), nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever, under or by reason of this Agreement.

Section 7.11 Counterparts. This Agreement may be executed and delivered (including by facsimile transmission or portable document format (".pdf")) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

Section 7.12 Further Assurances. Each party shall cooperate and take such action as may be reasonably requested by another party in order to carry out the provisions and purposes of this Agreement and the transactions contemplated hereby.

Section 7.13 Specific Performance. The parties hereto agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof, in addition to any other remedy to which they are entitled at Law or in equity.

Section 7.14 Arbitration; Provisional Remedies; Consent to Jurisdiction; Service of Process; Venue.

(a) All disputes arising out of, relating to or in connection with this Agreement shall be finally settled under the Rules of Arbitration (the "Rules") of the International Chamber of Commerce (the "ICC"). Each party, on behalf of itself and its Affiliates, irrevocably and unconditionally consents to such arbitration as the sole and exclusive method of resolving any such dispute.

(b) The arbitration proceeding will take place in the Borough of Manhattan, City of New York and will be conducted in the English language. There shall be three (3) arbitrators, one of whom shall be nominated by the initiating party in the notice of arbitration, the second of whom shall be nominated by the other party within thirty (30) days of receipt of the request for arbitration, and the third of whom, who shall act as the chairman, nominated by the two (2) appointed arbitrators within thirty (30) days of the appointment of the second arbitrator, should the two party appointed arbitrators fail to agree on the nomination of the third arbitrator within such 30-day period, the third

arbitrator shall be appointed by the ICC pursuant to the Rules. The third arbitrator shall be chosen solely from among individuals who are licensed to practice in the State of New York. Judgment upon any arbitral award rendered may be entered and a confirmation order sought in any court having jurisdiction thereof.

(c) For the avoidance of doubt, the arbitral tribunal shall have the power to issue injunctions and award specific performance in accordance with Section 7.13. The arbitral tribunal shall have no power to impose any non-monetary sanctions.

(d) Nothing in this Agreement shall prevent any party from seeking provisional measures from any court of competent jurisdiction, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate. To that end, each of the parties to this Agreement irrevocably and unconditionally submits to the jurisdiction of the federal courts of the United States of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, for the purposes of any such action or other proceeding seeking provisional measures in connection with this Agreement or any transaction contemplated hereby. The Investor and the Guarantor have appointed [] as its authorized agent (the "Authorized Agent") upon whom process may be served in any such action or proceeding which may be instituted in any New York court. The Investor and the Guarantor hereby represent and warrant that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and the Investor and the Guarantor agree to take any and all action, including the filing of any and all documents that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Investor and the Guarantor. The Company irrevocably consents to service of process in the manner provided for notice in Section 7.07. Each of the parties irrevocably and unconditionally waives (and agrees not to plead or claim), any objection to the laying of venue of any action or proceeding arising out of this Agreement or the transactions contemplated hereby in the federal courts of the United States of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, or that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 7.15 Currency. Unless otherwise specified in this Agreement, all references to currency, monetary values and dollars set forth herein means United States (U.S.) dollars and all payments hereunder shall be made in United States dollars.

Section 7.16 Damages. No party shall any party seek or be entitled to receive special or punitive damages as to any matter under, relating to or arising out of the transactions contemplated by this Agreement.

Section 7.17 Expenses. Except as otherwise specified in the Transaction Documents, including the provisions of Article V of this Agreement, all costs and expenses,

including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 7.18 Entire Agreement. The Transaction Documents (including any exhibits and schedules) and the Confidentiality Agreement constitute the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and undertakings, both written and oral, among the Company, the Guarantor and the Investor with respect to the subject matter hereof and thereof.

Section 7.19 Public Announcements. Neither party will make any public disclosure regarding the Transaction Documents or the transactions contemplated in the Transaction Documents without first consulting with the other party, except as may be required by applicable Law or applicable stock exchange rules or to the extent required to obtain the Governmental Approvals; provided that the initial announcement and/or disclosure of the transactions contemplated by the Transaction Documents shall be mutually agreed by the parties. To the extent reasonably practicable, the parties shall cooperate on the content of any public disclosure.

Section 7.20 Sovereign Immunity. Each of the Investor and the Guarantor hereby represents and warrants to the Company as of the date hereof that neither the Investor nor the Guarantor is entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Agreement at any time brought against the Investor or Guarantor, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding, from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise. To the extent that the Investor and the Guarantor are ever construed as a Governmental Entity or are or become entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Agreement at any time brought against the Investor or the Guarantor, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding, from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Investor and the Guarantor hereby unconditionally and irrevocably agree (a) that the execution, delivery and performance by it of this Agreement constitute private and commercial acts done for private and commercial purposes rather than public or governmental acts and (b) not to claim and

unconditionally and irrevocably waive such immunity to the full extent it is permitted to do so under applicable Law of such jurisdiction.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto caused this Agreement to be duly executed by their respective authorized officers on the day and year first above written.

WESTERN DIGITAL CORPORATION

By ________________________________

Name: Stephen D. Milligan
Title: Chief Executive Officer

UNIS UNION INFORMATION SYSTEM LTD.

By ________________________________

Name:
Title:

UNISPLENDOUR CORPORATION LIMITED

By ________________________________

Name:
Title:

[*Signature Page to Investor Rights Agreement*]

Exhibit B

Form of Guaranty

LIMITED PAYMENT GUARANTY

This Limited Payment Guaranty (this "Guaranty") is made as of [], 2015 by Tsinghua Unigroup Co., Ltd., a Chinese corporation ("Unigroup"), in favor of Western Digital Corporation, a Delaware corporation (the "Company").

WHEREAS, reference is made herein to that certain Stock Purchase Agreement, dated as of September 29, 2015 (the "Stock Purchase Agreement"), by and among Unis Union Information System Ltd., a Hong Kong corporation (the "Investor"), Unisplendour Corporation Limited, a Chinese corporation ("Unisplendour"), and the Company. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Stock Purchase Agreement;

NOW, THEREFORE, as an inducement to the Company to enter into the Stock Purchase Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties, Unigroup undertakes and agrees for the benefit of the Company as follows:

1. Unigroup hereby irrevocably and unconditionally guarantees the payment by each of Unisplendour and the Investor of its obligations under the Stock Purchase Agreement when due (the "Guaranteed Obligations"). Unigroup hereby guarantees irrevocably and unconditionally and as a primary obligation the Guaranteed Obligations. If Unisplendour or the Investor fails or refuses to pay such Guaranteed Obligations when due for payment by Unisplendour or the Investor, Unigroup shall, upon the written request of the Company, immediately pay such Guaranteed Obligations. This guarantee shall apply regardless of any amendments, variations, alterations, waivers or extensions to the Stock Purchase Agreement, whether or not Unigroup received notice of the same and Unigroup waives all need for notice of the same. Notwithstanding any of the terms or conditions of this Guaranty, (i) under no circumstance shall the maximum liability of Unigroup to the Company under this Guaranty exceed the aggregate Purchase Price for the Shares payable in accordance with, and subject to, the terms and conditions of the Stock Purchase Agreement (the "Cap") for any reason (it being understood that this Guaranty may not be enforced without giving effect to the Cap) and (ii) under no circumstances shall Unigroup be liable for special or punitive damages.

2. The guarantee made by Unigroup pursuant to this ☒Guaranty is a guarantee of payment and not of collection. The obligations of Unigroup hereunder shall be continuing, absolute and unconditional and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by: (a) any invalidity, illegality or unenforceability against Unisplendour or the Investor of the Stock Purchase Agreement due to the lack of power or authority of Unisplendour or the Investor to enter into or perform the Stock Purchase Agreement or as a result of the bankruptcy, insolvency, dissolution, liquidation or reorganization or similar event affecting Unisplendour or the Investor; (b) any modification, amendment,

restatement, waiver by Unisplendour or the Investor or rescission of, or any consent to the departure by Unisplendour or the Investor from, any of the terms of the Stock Purchase Agreement; (c) any exercise or non-exercise by the Company of any right or privilege under the Stock Purchase Agreement and any notice of such exercise or non-exercise; (d) any extension, renewal or waiver by Unisplendour or the Investor of the Guaranteed Obligations under the Stock Purchase Agreement, by operation of law or otherwise, or any assignment of the Guaranteed Obligations by the Company; (e) any change in the corporate existence, structure or ownership of Unisplendour or the Investor; (f) any insolvency, bankruptcy, reorganization or other similar proceeding affecting Unisplendour or the Investor, or its respective assets, or any resulting release or discharge of the Guaranteed Obligations under the Stock Purchase Agreement; (g) any requirement that the Company exhaust any right or remedy or take any action against Unisplendour or the Investor or any other Person before seeking to enforce the obligations of Unigroup or the Investor under this ☒Guaranty; (h) the existence of any defense, set-off or other rights that Unigroup or the Investor may have at any time against the Company or any other Person, whether in connection herewith or any unrelated transactions; or (i) any suretyship defenses available to a guarantor.

3. No failure on the part of the Company to exercise, no delay in exercising, and no single or partial exercise of any right, remedy or power hereunder, and no course of dealing among the parties, shall constitute a waiver of any such right, remedy or power.

4. This Guaranty is a continuing guaranty and shall be binding upon Unigroup until all the Guaranteed Obligations have been satisfied or paid in full. Notwithstanding the foregoing, this Guaranty shall terminate and Unigroup shall have no further obligations under this Guaranty as of the earlier of (i) the Closing and (ii) one year after the termination of the Stock Purchase Agreement in accordance with its terms if no claims have been made by the Company under Section 9 hereunder prior to such one year anniversary.

5. Unigroup agrees to be bound as an Affiliate pursuant to Section 4.03(a) of the Investor Rights Agreement, by and among Unis Union Information System Ltd., Unisplendour Corporation Limited and Western Digital Corporation, dated as of [•], 2015.

6. No waiver, modification or amendment of any provisions of this Guaranty shall be effective except pursuant to a written agreement signed by the Company and Unigroup. This Guaranty shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but neither this Guaranty nor any of the rights, interests or obligations hereunder shall be assigned, transferred or delegated by either of the parties without prior written consent of the other party, and any attempt to make any such assignment, transfer or delegation without such consent shall be null and void.

7. This Guaranty may be executed and delivered (including by facsimile transmission or portable document format (".pdf") in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

8. This Guaranty and the legal relations among the parties shall be governed by and construed in accordance with the laws of the State of New York without giving effect to any law or rule that would cause the laws of any jurisdiction other than the State of New York to be applied.

9. (a) All disputes arising out of, relating to or in connection with this Guaranty shall be finally settled under the Rules of Arbitration (the "Rules") of the International Chamber of Commerce (the "ICC"). Each of the parties to this Guaranty irrevocably and unconditionally consents to such arbitration as the sole and exclusive method of resolving any such dispute.

(b) The arbitration proceeding will take place in the Borough of Manhattan, City of New York and will be conducted in the English language. There shall be three (3) arbitrators, one of whom shall be nominated by the initiating party in the notice of arbitration, the second of whom shall be nominated by the other party within thirty (30) days of receipt of the request for arbitration, and the third of whom, who shall act as the chairman, nominated by the two (2) appointed arbitrators within thirty (30) days of the appointment of the second arbitrator, should the two party appointed arbitrators fail to agree on the nomination of the third arbitrator within such 30-day period, the third arbitrator shall be appointed by the ICC pursuant to the Rules. The chairman shall be licensed to practice law in the State of New York. Judgment upon any arbitral award rendered may be entered and a confirmation order sought in any court having jurisdiction thereof.

(c) The arbitral tribunal shall have no power to impose any non-monetary sanctions. For the avoidance of doubt, the arbitral tribunal shall have the power to issue injunctions and award specific performance in accordance with Section 9.14 of the Stock Purchase Agreement.

(d) Nothing in this Guaranty shall prevent any party from seeking provisional measures from any court of competent jurisdiction, and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate. To that end, each of the parties to this Guaranty irrevocably and unconditionally submits to the jurisdiction of the federal courts of the United States of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, for the purposes of any such action or other proceeding seeking provisional measures in connection with this Guaranty. Unigroup has appointed [] as its authorized agent (the "Authorized Agent") upon whom process may be served in any such action or proceeding which may be instituted in any New York court. Unigroup hereby represents and warrants that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and Unigroup agrees to take any and all action, including the filing of any and all documents that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon Unigroup. The Company irrevocably consents to service of process in the manner provided for notice in Section 11. Each of the parties irrevocably and unconditionally waives (and agrees not to plead or claim), any objection to the laying of venue of any action or proceeding arising out of this Guaranty in the federal courts of

the United States of America or, in the event that such courts do not have subject matter jurisdiction, the courts of the State of New York, in each case located in the Borough of Manhattan, or that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

10. The Company agrees and acknowledges that recourse against Unigroup under and pursuant to the terms of this Guaranty shall be the sole and exclusive remedy of the Company and its affiliates against Unigroup in respect of any liabilities or obligations arising under, or in connection with, the Stock Purchase Agreement or the transactions contemplated thereby. Nothing set forth in this Guaranty shall affect or be construed to affect any liability of the Investor or Unisplendour to the Company or shall confer or give or be construed to confer or give to any Person other than the Company (including any person acting in a representative capacity) any rights or remedies against any Person, including Unigroup, except as expressly set forth herein.

11. All notices, requests, consents, waivers and other communications hereunder shall be in writing and shall be deemed given: (a) when delivered if delivered personally (including by courier); (b) on the third day after mailing, if mailed, postage prepaid, by registered or certified mail (return receipt requested); (c) on the day after mailing if sent by an internationally recognized overnight delivery service that maintains records of the time, place, and recipient of delivery; or (d) upon receipt of a confirmed transmission, if sent by telex, telecopy or facsimile transmission or e-mail, in each case to the other parties at the following addresses, facsimile numbers or e-mail addresses or to such other addresses as may be furnished in writing by one party to the others:

(a) if to Unigroup to:

Tsinghua Unigroup Ltd.
10/F Unis Plaza, Tsinghua Science Park
Beijing 100084, PRC
Attention: Rong Chen
Fax: +86 10 8215 9228
E-mail: Chenrong@unigroup.com.cn

with a copy (which shall not constitute notice) to:

Hogan Lovells US LLP
555 Thirteenth Street, NW
Washington, DC 20004
Attention: J. Warren Gorrell
Facsimile +1 202 637 5910
Email: warren.gorrell@hoganlovells.com
Attention: Glenn C. Campbell
Facsimile: +1 202 637 5910
Email: glenn.campbell@hoganlovells.com

Attention: Elizabeth M. Donley
Facsimile: +1 202 637 5910
Email: elizabeth.donley@hoganlovells.com

Hogan Lovells International LLP
31st Floor, Tower 3, China Central Place
No. 77 Jianguo Road
Chaoyang District
Beijing 100025
Attention: Jun Wei
Facsimile: +86 10 6582 9499
Email: jun.wei@hoganlovells.com

(b) if to the Company:

Western Digital Corporation
3355 Michelson Drive, Suite 100
Irvine, California 92612
Attention: General Counsel
Facsimile: (949) 672-9612
E-mail: Michael.Ray@wdc.com

with a copy (which shall not constitute notice) to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Attention: Neil Whoriskey
Facsimile: (212) 225-3999
E-mail: nwhoriskey@cgsh.com
Attention: Adam Fleisher
Facsimile: (212) 225-3999
E-mail: afleisher@cgsh.com
Attention: Matthew Salerno
Facsimile: (212) 225-3999
E-mail: msalerno@cgsh.com

12. Unless otherwise specified in this Guaranty, all references to currency, monetary values and dollars set forth herein means United States (U.S.) dollars and all payments hereunder shall be made in United States dollars.

13. Unigroup hereby represents and warrants to the Company as of the date hereof that Unigroup is not entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Guaranty at any time brought against Unigroup, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself

or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding, from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise. To the extent that Unigroup is ever construed as a Governmental Entity or is or becomes entitled to any sovereign immunity in connection with any suit, action, judicial or arbitral proceeding arising out of or relating to this Guaranty at any time brought against Unigroup, or with respect to any suit, action, judicial or arbitral proceeding at any time brought for the purpose of enforcing or executing any judgment or arbitral award in any jurisdiction, with respect to itself or its revenues, assets or properties, whether from service or notice, from suit or arbitral proceeding, from the jurisdiction of any court, from attachment prior to judgment or arbitral award, from attachment in aid of execution of judgment or arbitral award, from execution of a judgment or arbitral award or from any other legal or judicial or arbitral process or remedy or otherwise, and to the extent that in any such jurisdiction there shall be attributed such an immunity, Unigroup hereby unconditionally and irrevocably agrees (a) that the execution, delivery and performance by it of this Guaranty constitute private and commercial acts done for private and commercial purposes rather than public or governmental acts and (b) not to claim and unconditionally and irrevocably waive such immunity to the full extent it is permitted to do so under applicable law of such jurisdiction.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Unigroup has duly executed and delivered this Limited Guaranty as of the day first written above.

TSINGHUA UNIGROUP CO, LTD.

By______________________
Name:
Title:

Agreed to and accepted by:

WESTERN DIGITAL CORPORATION

By_________________________
Name:
Title:

Western Digital Corporation
3355 Michelson Drive, Suite 100
Irvine, CA 92612 (949) 672-7000 x 27985/27986

Notice of Grant of Performance Stock Units
and Performance Stock Unit Award Agreement - Executives

<<Name>>	**Award Number:**
<<Address 1>>	**Plan: 2004 Performance Incentive Plan**
<<Address 2>>	**ID:**

Congratulations! Effective <<grant date>>, you have been granted stock units of Western Digital Corporation (the "**Corporation**"). These stock units were granted under the Amended and Restated 2004 Performance Incentive Plan, as such plan may be amended from time to time (the "**Plan**").[1]

Total Target Number of Stock Units:

Measurement Period covered by grant: July 4, 2015 to July 2, 2021

The actual number of stock units that vest and become payable based on performance during the Measurement Period may range from 0% to 300% of the total target number of Stock Units subject to the award as set forth on Exhibit A hereto.

Your stock unit award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Performance Stock Unit Awards - Executives (the "**Standard Terms**") and the Plan. By accepting the award, you are agreeing to the terms of the award as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Corporation's Stock Plans Administrator.

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1 The number of stock units subject to the award is subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).

Western Digital Corporation 3355 Michelson Drive, Suite 100
Irvine, California 92612 Telephone 949 672-7000

STANDARD TERMS AND CONDITIONS FOR PERFORMANCE STOCK UNIT AWARDS - EXECUTIVES

Amended and Restated 2004 Performance Incentive Plan

1. Stock Units Subject to 2004 Performance Incentive Plan

The Stock Unit Award (the "**Award**") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "**Notice**") was awarded under the Corporation's Amended and Restated 2004 Performance Incentive Plan (the "**Plan**"). Each stock unit covered by the Award ("**Stock Unit**") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "**Participant**." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. The target number of Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "**Stock Unit Account**").

The Stock Units are subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Performance Stock Unit Awards - Executives (these "**Standard Terms**"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. Capitalized terms not defined herein have the meanings set forth in the Plan or in the Notice, as applicable.

2. Award Agreement

The Notice and these Standard Terms, together, constitute the Award Agreement with respect to the Award pursuant to Section 5.3 of the Plan.

3. Deferral of Stock Units

Notwithstanding anything to the contrary contained herein, the Participant may elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer the Stock Units subject to the Award under the Corporation's Deferred Compensation Plan (the "**Deferred Compensation Plan**"). If the Participant makes such a deferral election, the Stock Units will be paid (to the extent vested) in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay in the event that the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan. Whether or not the Participant elects to defer the Stock Units, any shares of Common Stock issued or delivered with respect to the Stock Units shall be charged against the applicable share limits of the Plan.

4. Vesting

The Administrator shall determine, in accordance with the performance goals and related criteria and methodology established by the Administrator for the Measurement Period, the extent to which the performance goals for the performance metrics set forth in Exhibit A have been achieved during the Measurement Period and the actual number of Stock Units credited based on performance during the Measurement Period. To the extent that any Stock Units are credited with respect to performance metrics that have been achieved during the Measurement Period, such credited Stock Units shall become vested (subject to Sections 7 and 8) as to 40% of such Stock Units on the First Vesting Date following the Crediting Date (as defined below) for those Stock Units, 40% of such Stock Units on the Second Vesting Date following the Crediting Date for those Stock Units, and 20% of such Stock Units on the Third Vesting Date following the Crediting Date for those Stock Units. Any Stock Units (including any related Stock Units credited as dividend equivalents pursuant to Section 5) that have not become credited based on performance metrics achieved during the Measurement Period shall terminate as of the last deadline with respect to a performance milestone as set forth in Exhibit A.

Any Stock Units (including any related Stock Units credited as dividend equivalents pursuant to Section 5) that may become credited based on achieving a particular performance metric before a certain date set forth in Exhibit A shall terminate and be forfeited to the Corporation as of that date to the extent such performance metric was not achieved on or before that date and to the extent such Stock Units may not become credited pursuant to any later achievement of that particular performance metric during the Measurement Period. (For purposes of clarity, if 100% of the Stock Units corresponding to a particular performance metric would be credited if the performance metric was achieved on or before date X, and only 70% of the Stock Units corresponding that metric would be credited if the performance metric was achieved after date X but on or before date Y, 30% of such Stock Units would terminate and be forfeited as of date X if that particular performance metric was not achieved on or before date X. If there was no opportunity for such Stock Units to become credited if that performance metric was not achieved on or before date Y, and the performance metric was not achieved on or before date Y, the remaining Stock Units (the 70% of the original 100%) would terminate and be forfeited on date Y.) The Participant shall have no further rights with respect to any Stock Units that terminate pursuant to the foregoing provisions of this Section 4 or pursuant to Section 7 or 8 below. The "**First Vesting Date**" means the last day of the first fiscal year of the Corporation during which the Administrator determines that performance has been achieved with respect to a performance milestone set forth in Exhibit A. The "**Second Vesting Date**" means the first anniversary of the First Vesting Date, and the "**Third Vesting Date**" means the second anniversary of the First Vesting Date (each of the First Vesting Date, Second Vesting Date and Third Vesting Date shall be referred to as a "**Vesting Date**"). The grant date of the Award is set forth in the Notice (the "**Grant Date**"). A "**Crediting Date**" for Stock Units means the date that the particular performance milestone is achieved as to those Stock Units and those Stock Units are credited pursuant to Exhibit A.

Except as expressly provided in Sections 7 and 8 below, the vesting schedule for the Stock Units requires continued employment through each applicable Vesting Date. Except as expressly provided in Sections 7 and 8 below, employment for only a portion of the applicable vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment as provided in Section 8 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant's Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. For these purposes, any Stock Units that vest and become payable in excess of the target number of Stock Units shall be considered to have been granted on the Grant Date. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate (including, for any Stock Units deferred pursuant to Section 3, the payment provisions of the Deferred Compensation Plan and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan).

6. Timing and Manner of Payment of Stock Units

Except as provided in Sections 3, 7 or 8, any Stock Units that vest pursuant to the terms of the Notice and these Standard Terms shall be paid as soon as practicable following the applicable Vesting Date, and in no event later than seventy (70) days following the applicable Vesting Date. For any Stock Units that become payable (whether pursuant to this Section 6, Section 7 or Section 8 hereof or Section 7 of the Plan) with respect to the applicable Vesting Date, the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units becoming payable with respect to such Vesting Date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest and become payable), subject to adjustment as provided in Section 7 of the Plan. The Corporation's obligation to deliver shares of Common Stock with respect to Stock Units that vest and become payable with respect to any Vesting Date is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan in advance of the applicable Vesting Date. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 4 or Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant's Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the Fair Market Value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

7. Change in Control Event Generally

Subject to Sections 7.5, 7.6 and 7.7 of the Plan, upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event in which the Stock Units subject to the Award are to terminate (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Award and the Award will not otherwise continue in accordance with its terms in the circumstances), the Stock Units subject to the Award that are then outstanding and unvested (and not previously terminated) immediately prior to the Change in Control Event shall vest as follows: (i) the then outstanding and otherwise unvested, but previously credited Stock Units based on the attainment of a performance milestone during the Measurement Period, Stock Units shall vest; and (ii) as to any then outstanding and otherwise unvested (and not previously terminated) Stock Units that remain eligible to vest and as to which the corresponding milestone has not been achieved and Stock Units have not been credited, a pro-rata portion of the target number of Stock Units (or, if less than the original target number of Stock Units corresponding to that particular performance milestone remain outstanding and eligible to vest with respect to that milestone at such time, a pro-rata portion of the full number of Stock Units that remain outstanding and eligible to vest with respect to that particular milestone at such time) shall vest (and provided that the Administrator, in its sole discretion, may consider it appropriate in the circumstances to provide for a greater portion of such outstanding Stock Units to vest). The pro-rata portion shall be calculated in the same manner as the pro-ration under Section 8(a) as though the Participant had died immediately prior to the Change in Control Event. Any such accelerated Stock Units shall be paid within seventy (70) days following the date of the Change in Control Event. Any remaining unvested Stock Units subject to the Award shall terminate and be forfeited to the Corporation as of the Change in Control Event. Notwithstanding the foregoing or anything in this Award Agreement or the Plan, if the Participant has elected to defer the Stock Units as provided in Section 3, then payment with respect to such deferred Stock Units shall not be made until such Stock Units would have become payable without regard to this Section 7 or Section 7 of the Plan and the Administrator may (to the extent the Stock Units subject to the Award would otherwise terminate in connection with the Change in Control Event) provide for a cash amount of equivalent value at the time of the Change in Control Event to be paid in respect of the deferred Stock Units in lieu of the shares otherwise subject to such Stock Units.

8. Termination of Employment

(a) Termination of Employment Generally; Death. Subject to earlier vesting as provided in Section 7 or below in this Section 8, if the Participant ceases to be employed by the Corporation or its Subsidiaries for any reason (the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "**Severance Date**"), the Participant's Stock Units shall terminate and be forfeited to the Corporation to the extent such Stock Units have not become vested upon the Severance Date; provided, however, that in the event of the Participant's death at a time when the Participant is employed by the Corporation or any of its Subsidiaries, the then outstanding and otherwise unvested Stock Units, which were previously credited based on the attainment of a performance milestone during the Measurement Period, shall vest as of the date of the Participant's death and, as to any then outstanding and otherwise unvested and uncredited (and not previously terminated) Stock Units that remain eligible to vest and as to which the achievement of the corresponding milestone has not been determined as of the date of the Participant's death, a pro-rata portion of the target number of such Stock Units shall vest as of the date of the Participant's death (or, if less than the original target number of Stock Units corresponding to that particular milestone remain outstanding, unvested, uncredited and eligible to vest at the time of the Participant's death, a pro-rata portion of the full number of Stock Units that remain outstanding, unvested, uncredited and eligible to vest with respect to that particular milestone shall vest as of the date of the Participant's death). All other Stock Units shall terminate and be forfeited as of the date of the Participant's death.

Any Stock Units that accelerate and become vested upon the Participant's death shall be paid to the Participant's legal representative within seventy (70) days following the date of the Participant's death. In the event the date of the Participant's death is at a time when the Participant is employed by the Corporation or any of its Subsidiaries, the pro-rata portion of the outstanding and otherwise unvested and uncredited (and not previously terminated) target number of Stock Units that vest as of the date of the Participant's death equals: the applicable number of Stock Units multiplied by a fraction, the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries from the Grant Date through the date of the Participant's death and the denominator of which is 1,095 days (three calendar years). Notwithstanding the foregoing payment terms of this Section 8(a), if the Participant has elected to defer the Stock Units as provided in Section 3, then payment with respect to such deferred Stock Units shall not be made until such Stock Units would have become payable without regard to this Section 8(a).

(b) Involuntary Termination of Employment. In the event the Participant ceases to be employed by the Corporation or any of its Subsidiaries during the Measurement Period as a result of a termination of employment under circumstances that give rise

to the payment of severance payments under either the Corporation's Executive Severance Plan or Amended and Restated Change of Control Severance Plan (in accordance with the terms of such plans and as each may be amended from time to time):

(i) the then outstanding and otherwise unvested Stock Units, which were previously credited based on the attainment of a performance milestone during the Measurement Period, shall vest as of the Participant's termination of employment;

(ii) as to any then outstanding and otherwise unvested and uncredited (and not previously terminated) Stock Units that remain eligible to vest and as to which the achievement of the corresponding milestone has not been determined as of the date of the Participant's termination of employment, a pro-rata portion of the target number of such Stock Units shall vest as of the date of the Participant's termination of employment (or, if less than the original target number of Stock Units corresponding to that particular milestone remain outstanding, unvested, uncredited and eligible to vest at the time of such termination of employment, a pro-rata portion of the full number of Stock Units that remain outstanding, unvested, uncredited and eligible to vest with respect to that particular milestone shall vest as of the date of the Participant's termination of employment); and

(iii) all remaining unvested and uncredited Stock Units shall terminate and be forfeited as of the date of the Participant's termination of employment.

Any such accelerated Stock Units pursuant to (b)(i) and (b)(ii) above shall be paid within seventy (70) days following the date of the Participant's termination of employment. The pro-ration shall be calculated in the same manner as the pro-ration under Section 8(a) as though the Participant's termination of employment was caused by his death. Notwithstanding the foregoing payment terms of this Section 8(b), if the Participant has elected to defer the Stock Units as provided in Section 3, then payment with respect to such deferred Stock Units shall not be made until such Stock Units would have become payable without regard to this Section 8(b).

9. Adjustments

Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator will make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which dividend equivalents are paid pursuant to Section 5.

10. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion, direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the minimum applicable withholding rates. Any deferred Stock Units shall be subject to the tax withholding provisions of the Deferred Compensation Plan.

11. Nontransferability

Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated, encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

12. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any

Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

13. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

14. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 14.

15. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("**JAMS**"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 15).

16. Governing Law

This Award Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

17. Severability

If the arbitrator selected in accordance with Section 15 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be

stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties’ intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

18. Entire Agreement

This Award Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof, including, without limitation, any provisions of the Participant’s employment agreement with the Corporation that entitle the Participant to receive a grant of “integration performance units”. By accepting the Award, the Participant hereby agrees that the Award is in full satisfaction of the Participant’s rights to receive “integration performance units” pursuant to the terms of the Participant’s employment agreement with the Corporation. The Plan and this Award Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

19. Section Headings

The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen D. Milligan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/s/ STEPHEN D. MILLIGAN

Stephen D. Milligan

Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Olivier C. Leonetii, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/s/ OLIVIER C. LEONETTI

Olivier C. Leonetti

Executive Vice President and Chief Financial Officer

Exhibit 32.1

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the "Company"), hereby certifies that, to his knowledge:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended October 2, 2015 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2015

/s/ STEPHEN D. MILLIGAN

Stephen D. Milligan

Chief Executive Officer

Exhibit 32.2

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended October 2, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2015

/s/ OLIVIER C. LEONETTI

Olivier C. Leonetti

Executive Vice President and Chief Financial Officer