
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 3, 1999

OR

ANNUAL 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)

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

Registrant's telephone number, including area code

Registrant's Web Site: <http://www.westerndigital.com>

Securities Registered Pursuant to Section 12(b) of the Act:

Delaware
(State or other jurisdiction of
incorporation or organization)

8105 Irvine Center Drive
Irvine, California
(Address of principal executive offices)

92-2647125
(I.R.S. Employer Identification No.)

92618
(Zip Code)

Securities Registered Pursuant to Section 12(g) of the Act:
None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes

As of September 17, 1999, the aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant was \$547.4 million.

As of September 17, 1999, the number of outstanding shares of Common Stock, par value \$.01 per share, of the Registrant was 101,301,709.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy Statement for the 1999 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 1999 fiscal year.

WESTERN DIGITAL CORPORATION

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For the Fiscal Year Ended July 3, 1999

Title of each class:	Name of each exchange on which registered:
Common Stock, \$.01 Par Value Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange New York Stock Exchange

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

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

The Company's fiscal year is a 52 or 53-week year ending on the Saturday nearest June 30. The 1997, 1998 and 1999 fiscal years ended on June 28, June 27, and July 3, respectively, and consisted of 52 weeks for the fiscal years 1997 and 1998, and 53 weeks for the fiscal year 1999.

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

The Company's principal executive offices are located at 8105 Irvine Center Drive, Irvine, California 92618; its telephone number is (949) 932-5000 and its web site is <http://www.westerndigital.com>. The information on the web site is not incorporated in this report.

PART I

Item 1. *Business*

General

Western Digital Corporation (the "Company" or "Western Digital") designs, develops, manufactures and markets a broad line of hard drives featuring leading-edge technology. A hard drive is a storage device found in most computers that stores data on one or more rotating magnetic disks that provide fast access to data that must be readily available to computer users. The Company's hard drives are designed for the desktop PC market and the high-end hard drive market and, recently, for the emerging market for hard drives specially designed for audio-visual applications, such as new video recording devices. The Company's hard drive products currently include 3.5-inch form factor hard drives ranging in storage capacity from 4.3 gigabytes ("GB") to 27.3 GB. The Company sells its products worldwide to computer manufacturers for inclusion in their computer systems or subsystems and to distributors, resellers and retailers. The Company's products are currently manufactured in Singapore and Malaysia.

In February 1999, the Company acquired Crag Technologies, Inc., renamed Connex, Inc. ("Connex") after the acquisition, a San Jose-based startup company formed to develop storage solutions for the Windows NT and UNIX server environments for the rapidly changing storage market. Connex's first product is expected to be a network attached storage appliance targeted at workgroups and small departments where multiple users access shared data files over a local area network. Connex is developing a network attached storage appliance featuring a fully integrated controller, up to six hard drives, an integrated tape for backup, automatic connectivity for remote management, and plug-and-play installation capability. The system will include Connex's Perspective™ storage management software. For further discussion of Connex, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Industry

Desktop PC Market. According to International Data Corporation, the desktop computer segment is the largest segment of the worldwide personal computer market, accounting for approximately 80% of global personal computer shipments in calendar 1998. As a result, desktop computers were the leading source of demand for hard drives, accounting for more than 75% of all hard drive units shipped worldwide in calendar 1998, according to International Data Corporation. Over 90% of Western Digital's hard drive unit shipments in 1999 were sold to this market. Desktop personal computers for entry level to experienced users are used in both commercial and consumer environments. The demand for hard drive capacity continues to grow in part due to:

- the financial prospects of the Company
- the Company's financing plans
- litigation and other contingencies potentially affecting the Company's financial position or operating results

- trends affecting the Company's financial condition or operating results
- the Company's strategies for growth, operations, product development and commercialization
- conditions or trends in or factors affecting the computer, data storage, home entertainment or hard drive industry.

Future demand growth for desktop computer hard drives also may be driven by new and emerging hard drive markets. In July 1999, International Data Corporation forecasted that the worldwide desktop computer hard drive market would grow from approximately 111 million units in calendar 1998 to 205 million units in calendar 2003, reflecting a compound annual growth rate of approximately 13.1%. However, it forecasts that revenue growth will only be approximately 4.4% through calendar 2003, reflecting the impact of industry

oversupply and severe price competition. See Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Desktop PCs are used in a number of environments, ranging from homes to businesses and multi-user networks. Software applications are primarily word processing, spreadsheet, desktop publishing, database management, multimedia, entertainment and other related applications. Desktop PCs typically utilize the Enhanced Integrated Drive Electronics ("EIDE") interface for their hard drives. The Company believes the minimum storage requirements in the past year for entry-level PCs were generally 3.2 GB to 4.3 GB of formatted capacity.

The market continues to demand increased capacity per unit as users' system needs increase and technological and manufacturing advances continue to make higher capacity drives more affordable. In the mainstream desktop PC market, the Company believes that the rate of increase in storage capacity per unit has recently outpaced the rate of increase in demand for such capacity. In contrast, the emerging use of hard drives to record and playback audio and video content in the audio-visual market is expected to create demand for storage capacity that will exceed the growth in demand for increased capacity in the desktop PC market. Overall, industry sources believe that the current rate of increase in storage capacity per unit shipped will continue for the foreseeable future. Accordingly, the Company believes that time-to-market, time-to-volume and time-to-quality leadership with higher capacity drives at attractive price levels will continue to be critical to its future success in serving this market.

Users of PCs, especially entry-level PCs, have become increasingly price sensitive. In 1998 the market for PC's priced below \$1,000 grew significantly, and in 1999 the market for PC's priced below \$800 was the fastest growing segment of the market. These systems typically do not contain high performance hard drives, but the growth of these segments has placed downward price pressure on higher cost systems as well, thereby contributing to the increasing price pressures on desktop hard drives. The Company has development efforts underway to specifically address the entry-level consumer PC market.

Enterprise Market. Enterprise systems include high performance microcomputers, workstations, servers and minicomputers. Applications operated by these systems are characterized by compute-intensive and data-intensive solutions, such as design and engineering software, network management, larger database management systems, scientific applications and small to medium-sized business applications such as materials requirement planning, payroll, general ledger systems and related management reports. Data integrity and rapid access to data are paramount in this environment. Enterprise systems typically require hard drive storage capacities of 9.0 GB and greater per

drive, average seek times of less than 8 milliseconds and rotation speeds of 7200 revolutions per minute ("rpm") to 10,000 rpm. Due to the leading-edge characteristics required by end-users of enterprise systems, manufacturers of such systems emphasize performance as well as price as the key selling points. Enterprise systems primarily use the Small Computer System Interface ("SCSI"), although recently the Fibre Channel Arbitrated Loop ("FC-AL") interface is being adopted by some storage subsystem providers and is expected to be increasingly utilized.

According to International Data Corporation, the worldwide market for enterprise hard drives experienced strong growth from calendar 1994 through calendar 1998, with a compound annual growth rate of approximately 20%. Revenue growth was not as strong, with a compound annual growth rate of approximately 7.5%. Unit growth declined in calendar 1998 as compared to prior years, and revenue was level from calendar 1997. Industry sources expect unit growth to stabilize at approximately 15% per year through calendar 2001. Revenue is expected to begin growing again in calendar 1999, accelerating to approximately 8% per year by calendar 2001. See Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Products

The Company's WD Caviar® and WD Expert™ brand products are designed to serve the desktop PC portion of the hard drive market, and its WD Enterprise™ brand products are designed to serve the enterprise portion. Products designed to serve the emerging audio-visual portion of the hard drive market will be branded as WD Performer™.

Desktop PC Products. The WD Caviar family currently consists of 1.0" high, 3.5-inch form factor products with capacities ranging from 4.3 GB to 20.5 GB and a rotation speed of 5400 rpm. The WD Expert family currently consists of 1.0" high, 3.5-inch form factor products, with capacities ranging from 6.8 GB to 27.3 GB and rotation speeds of 7200 rpm. In 1998 the Company introduced Data Lifeguard™, an exclusive data reliability feature which is now implemented in all of the Company's hard drives. Data Lifeguard protects end-user data by automatically detecting, isolating, and repairing possible problem areas on the hard drive before data loss can occur. The WD Caviar and WD Expert products utilize the EIDE interface, providing high performance while retaining ease of use and overall low cost of connection. The type of EIDE interface currently used in all of the Company's desktop PC hard drives is ATA/66, which signifies an internal data transfer rate of 66 megabytes per second, approximately twice as fast as the previous generation of EIDE interface.

The WD Caviar product line generally leverages a common architecture or "platform" for various products with different capacities to serve the differing needs of the desktop PC market. The Company expects to utilize the WD Caviar platform strategy as it develops products for the emerging market for hard drives specifically designed for audio-visual applications, such as new video digital recording devices. This platform strategy results in commonality of components across different products, which reduces exposure to changes in demand, facilitates inventory management and allows the Company to achieve lower costs through economies of scale purchasing. This platform strategy also enables computer manufacturer customers to leverage their qualification efforts onto successive product models.

The WD Expert line of hard drives is focused on the higher end of the desktop PC market where capacity per system and performance are most important. These drives are developed under a hard drive technology licensing and component supply agreement between the

Company and IBM (the "IBM Agreement"). The IBM Agreement enables the Company to incorporate IBM's technology, designs, and hard drive components into the Company's desktop PC products. The Company believes that access to IBM's hard drive research and development in 1999 helped the Company achieve its strategy of time-to-market leadership in the desktop PC hard drive market. For further discussion of the IBM relationship, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Enterprise Products. The Company began shipping WD Enterprise products in fiscal 1997. The Company's current enterprise products offer storage capacities ranging from 9.1 GB to 18.3 GB, are 1.0" high, use the 3.5-inch form factor, feature seek times of less than 8 milliseconds, and are targeted at workstations, servers, multi-user systems and storage subsystems. WD Enterprise™ products utilize the SCSI interface, (both single-ended and low voltage differential) combined with 7200 rpm and 10,000 rpm spin rates to provide the high performance required to meet the storage needs of enterprise systems. The Company also recently introduced a WD Enterprise product which uses the Ultra 160 SCSI interface, allowing an internal data transfer rate of approximately 160 megabytes per second, twice as fast as the previous generation of SCSI interface.

In order to grow its enterprise product revenues, the Company must expand its product offerings to include a broader range of enterprise products demanded by computer manufacturer customers. These products include FC-AL and other high speed interfaces. See "Technology and Product Development." The IBM Agreement is not applicable to the Company's enterprise business, so enterprise product development must be achieved through the Company's own technological developments.

Products for Emerging Audio-visual Markets. Audio-visual applications such as digital video recording devices represent a developing market opportunity for the Company's hard drive technologies. Hard drive technology makes it possible to simultaneously record and playback content; to pause, skip forward and backward during live broadcasts; and to rapidly access large amounts of audio-visual content. The Company offers customized design capabilities and unique hard drive technologies for consumer applications; however, where practical, the Company intends to leverage its existing product line architectures for the various products for the audio-visual market. The Company is currently developing hard drives for consumer electronics products with Sony Corporation, under a strategic alliance between the Company and Sony that was announced in December 1998. The Company is also in discussions with other consumer electronics

companies concerning incorporation of hard drives into new and existing consumer electronics products. Commercialization of the Sony product is being targeted for calendar 2000. Because the market for these products has not yet developed, it is too early to project the likely size and growth of such market. For further discussion of this product development effort, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Products being Developed by Connex. Connex is developing a network attached storage appliance featuring a fully integrated controller, up to six hard drives, an integrated tape for backup, automatic connectivity for remote management, and plug-and-play installation capability. The system will include Connex's Perspective™ storage management software. The system will be marketed for use by workgroups and small departments where multiple users access shared data files over a local area network. For further discussion of Connex, see Part II, Item 7, under the heading "Risk factors relating to

Western Digital particularly."

Technology and Product Development

Hard drives are used to record, store and retrieve digital data. Their performance attributes are currently better than removable or floppy disks, optical disk drives and tape, and they are more cost effective than semiconductor technology. The primary measures of hard drive performance include:

- continued improvements in desktop computing price to performance ratios;
- the emergence of the sub-\$1,000 desktop computer;
- the rapid accumulation of data resulting from the digitization of information previously stored in paper form;
- larger file sizes created by multimedia-intensive applications;
- the exchange of increasing volumes of data among users across the Internet and intranets with the proliferation of collaborative computing; and
- increased demand for desktop computer upgrades as a result of Year 2000 compliance efforts.

All of the Company's hard drive products employ similar technology. The main components of the hard drive are the head disk assembly and the printed circuit board. The head disk assembly includes the head, media (disks), head positioning mechanism (actuator) and spin motor. These components are contained in a hard base plate protective package in a contamination-free environment. The printed circuit board includes custom integrated circuits, an interface connector to the host computer and a power connector.

The head disk assembly is comprised of one or more disks positioned around a spindle hub that rotates the disks by a spin motor. Disks are made of a smooth substrate to which a thin coating of magnetic materials is applied. Each disk has a head suspended directly above it, which can read data from or write data to the spinning disk. The sensor element of the head, also known as the slider, is getting progressively smaller, resulting in reduced material costs.

The integrated circuits on the printed circuit board typically include a drive interface and a controller. The drive interface receives instructions from the computer, while the controller directs the flow of data to or from the disks, and controls the heads. The location of data on each disk is logically maintained in concentric tracks which are divided into sectors. The computer sends instructions to the controller to read data from or write data to the disks based on track and sector locations. Guided by instructions from the controller, the head stack assembly is pivoted and swung across the disk by a head actuator or motor until it reaches the selected track of a disk, where the data is recorded or retrieved.

Industry standard interfaces are utilized to allow the disk drive to communicate with the computer. Currently, the primary interface for desktop PCs is EIDE and, for enterprise systems, SCSI. As computer performance continues to improve, the hard drive will need to deliver information faster than these interfaces can handle. Accordingly, enterprise systems have begun to incorporate the FC-AL serial interface where very high data transfer rates are important, and the desktop PC industry plans to transition to higher speed

is working to develop products that will support these higher speed interfaces.

Storage capacity of the hard drive is determined by the number of disks and each disk's areal density, which is a measure of the amount of data that can be stored on the recording surface of the disk. Areal density is generally measured in megabits per square inch of disk surface. The higher the areal density, the more information can be stored on a single platter. As the areal density increases, fewer disks and/or heads are required to achieve a given drive capacity, thus reducing product costs through reduced component requirements.

Head technology is one of the variables affecting areal density. The desktop hard drive industry has completed a transition to magnetoresistive head technology, which allows significantly higher storage capacities than the previously utilized thin-film head technology. Magnetoresistive heads have discrete read and write structures which provide more signal than the older thin-film inductive heads. This allows significantly higher areal densities, which increases storage capacity per disk and improves manufacturing margin and product reliability. The Company completed the transition to magnetoresistive head technology in 1999 and is in the process of completing a transition to the next generation of head technology, known as giant magnetoresistive. Certain of the Company's competitors in the desktop PC hard drive market moved more quickly than the Company into magnetoresistive head technology, achieving time-to-market leadership at higher capacity points; however, the Company has been a leader in the transition to giant magnetoresistive head technology. The Company began volume shipments of its first giant magnetoresistive-based hard drive products for the desktop PC market in the third quarter of 1999, and currently all of the Company's desktop product offerings employ giant magnetoresistive head technology.

Constant innovations in research and development are essential to the Company's ability to compete. Hard drive providers are evaluating or implementing a number of technological innovations designed to further increase hard drive performance and reduce product costs, including simplifying the electronic architecture by combining the traditional controller, channel, microprocessor and servo-interface management functions of traditional hard drive microprocessors on a single integrated circuit. Moreover, to consistently achieve timely introduction and rapid volume production of new products, some hard drive providers are striving to simplify their product design processes by focusing on creating extendible core technology platforms which utilize common firmware and mechanical designs and re-use of manufacturing tooling and application specific integrated circuits across various product generations and product lines.

The Company must expand its product offerings in the enterprise market to include FC-AL interface and other emerging technologies. The Company's current line of enterprise products consists of SCSI low profile 1.0" high drives with capacity points up to 18.3 GB. While these products address approximately 70% to 80% of the enterprise market, that percentage is likely to decrease as demand for FC-AL interface and 10,000 and higher rpm drive products grows. The Company's research and development is crucial to its success in the enterprise market. There is continuing market pressure to increase the spindle rotational speed and decrease the average seek time of enterprise products. The Company must build its enterprise infrastructure quickly enough to support this development schedule. This will involve hiring and retaining qualified engineers at a time when there is a worldwide shortage of such engineers. For a discussion of our enterprise product development, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Sales and Distribution

The Company sells its products globally to computer manufacturers, distributors, value-added resellers, dealers, system integrators, retailers and internet-based retailers. Manufacturers typically purchase components such as hard drives and assemble them into the computer systems they build.

Distributors typically sell the Company's drives to small manufacturers, dealers, system integrators and other resellers.

Manufacturers. Sales to manufacturers accounted for 72%, 69% and 70% of consolidated revenues in 1997, 1998 and 1999, respectively. The Company's major computer manufacturer customers include Apple Computer, Compaq Computer, Dell Computer, Fujitsu, Gateway, Hewlett-Packard, IBM, Intel, Micron Electronics and NEC. During 1997, sales to IBM accounted for 13% of revenues. During 1998 and 1999, sales

to Compaq accounted for 14% and 21% of revenues, respectively. The Company believes that its success depends on its ability to maintain and improve its strong relationships with the leading computer manufacturers. Western Digital, Quantum, IBM and Seagate have historically had the highest market share with these manufacturers. Over the last two years, Maxtor Corporation and Fujitsu Limited have introduced new hard drive products and gained market share with leading computer manufacturers. The increase in the number of qualified suppliers to the leading manufacturers, combined with the growth of the sub-\$1,000 PC market, has placed continuous downward pressure on hard drive prices. This pressure, in turn, has reduced average gross margins for hard drive suppliers.

The leading PC computer manufacturers have been gaining market share, which has increased their purchasing leverage over component suppliers. In calendar years 1997 and 1998, the top ten PC computer manufacturers accounted for more than 50% of all PC shipments and most of the growth in the PC market. In addition, the top four server and workstation computer manufacturers accounted for almost 50% of server and workstation units shipped in calendar 1998. As a result, maintaining customer satisfaction with these leading computer manufacturers has become even more critical.

Computer manufacturers typically seek to qualify up to three or four providers for each generation of hard drives. Once a computer manufacturer has chosen its qualified hard drive vendors for a given product, it generally will purchase hard drives from those vendors for the life of that product. To achieve consistent success with computer manufacturers' qualifications, a hard drive supplier must be an early provider of next generation hard drives featuring leading technology and high capacity per disk. Suppliers must quickly achieve volume production of high quality and reliable hard drives. To quickly achieve high volume production, a hard drive supplier must have access to flexible, high-capacity, high-quality manufacturing capabilities. Factors on which computer manufacturers evaluate their hard drive suppliers include overall quality, storage capacities, performance characteristics, price, ease of doing business, and the supplier's long-term financial stability.

The business models of computer manufacturers are in the process of changing, and these changes have impacted and will continue to impact Western Digital's sales, inventory and distribution patterns. The forecast-driven, long-production-run logistics model, which most of the computer industry has used, exposes manufacturers and others in the distribution chain to the risk of carrying excess or obsolete inventories. The historical model limits the computer manufacturers' flexibility to react to rapid technology changes and component pricing fluctuations. In response, the leading manufacturers require their hard drive suppliers to maintain a small base stock of finished product in locations adjacent to the customers' manufacturing facilities. In addition, some of the Company's customers have implemented a supply chain logistics model that combines "build-to-order" (computer manufacturer does not build until there is an order backlog) and "contract manufacturing" (computer manufacturer contracts assembly work to a contract manufacturer who purchases components and assembles the computer based on the computer manufacturer's

instructions.) The Company then ships hard drives directly to the assembler for installation at its location. The Company has adapted its logistics model to effectively align with these industry shifts. These changes require greater skill in managing finished goods inventory and more flexibility in manufacturing, both of which in turn require even closer relationships between the Company and its computer manufacturer and contract manufacturer customers. To meet these challenges the Company is expanding its use of Internet technology and web-based supply chain planning tools. For an additional discussion of the changes in customer models, refer to Part II, Item 7, under the headings "Risk factors related to Western Digital particularly," and "Risk factors related to the hard drive industry in which we operate."

The Company maintains a base stock of two to three weeks of current, finished goods inventory for certain key computer manufacturer customers in facilities located adjacent to their operations. Inventory at these locations usually includes minor product customizations (such as labeling) for the related computer manufacturer. If subsequent to its initial order the computer manufacturer changes its requirements, inventory held at these facilities can be sold to other computer manufacturers or distributors as is or with minor modifications (such as a change in labeling) at little or no additional cost. Therefore, these arrangements, even if not fulfilled, have minimal impact on inventory valuation.

Distributors. The Company uses a select group of distributors to sell its products to small computer manufacturers, value-added resellers, resellers and systems integrators. The Company's major distributor customers include ASI, CHS, Decision Support Systems, ELD, Ingram Micro, Merisel, Servex, Synnex and Tech Data. Distributors and retailers combined accounted for approximately 28%, 31%, and 30% of disk drive revenue for 1997, 1998, and 1999, respectively. Distributors generally enter into non-exclusive agreements with the Company for purchase and redistribution of product on a quick turnover basis. Purchase orders are placed and revised on a weekly basis. The Company grants certain of its distributors price protection and limited rights to return product on a rotation basis.

Retailers. The Company sells its retail-packaged products directly to a select group of major retailers such as computer superstores, warehouse clubs and computer electronics stores and authorizes sales through distributors to smaller retailers. Major retailers to whom the Company sells directly include Best Buy, Carrefour, Circuit City, CompUSA, Dixons, Office Depot and Vobis. Retailers accounted for approximately 3.1%, 4.7%, and 6.3% of revenue for 1997, 1998, and 1999, respectively. The Company's current retail customer base is in the United States and Canada. The retail channel complements the Company's other sales channels while helping to build brand awareness for the Company and its products. Retailers supply the aftermarket "upgrade" sector in which end-users purchase and install products to upgrade their computers. The Company grants certain of its retailers price protection and limited rights to return product on a rotation basis.

The Company maintains sales offices throughout North America, Eastern and Western Europe, the Middle East, Japan and Southeast Asia. Field application engineering is provided to strategic computer manufacturer accounts, and end-user technical support services are provided within the United States and Europe. The Company's end-user technical support is supplied by both employees and qualified third-party support organizations through telephone support during business hours and via the Company's web site.

The Company's international sales, which include sales to

foreign subsidiaries of U.S. companies, represented 47%, 43% and 45% of revenues for fiscal years 1997, 1998 and 1999, respectively. Sales to international customers may be subject to certain risks not normally encountered in domestic operations, including exposure to tariffs, various trade regulations and fluctuations in currency exchange rates. See Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

For information concerning revenue recognition, sales by geographic region and significant customer information, see Notes 1 and 7, respectively, of Notes to Consolidated Financial Statements.

The Company's marketing and advertising functions are performed both internally and through outside firms. Advertising, direct marketing, worldwide packaging and marketing materials are targeted to various end-user segments. Western Digital utilizes both consumer media and trade publications. The Company has programs under which qualifying manufacturers and resellers are reimbursed for certain advertising expenditures. Western Digital also invests in direct marketing and customer satisfaction programs. The Company maintains ongoing contact with end users through primary and secondary market research, focus groups, product registrations and technical support databases.

Competition

In the desktop product market, the Company competes primarily with Fujitsu, IBM, Maxtor, Quantum, Samsung, and Seagate. In the enterprise market, the Company competes primarily with Fujitsu, Hitachi, IBM, Quantum, and Seagate.

The hard drive industry is intensely competitive, with hard drive suppliers competing for a limited number of major customers. Hard drives manufactured by different competitors are highly substitutable due to the industry mandate of technical form, fit and function standards. Hard drive manufacturers compete on the basis of product quality and reliability, storage capacity, unit price, product performance, production volume capabilities, delivery capability, leadership in time-to-market, time-to-volume and time-to-quality and ease of doing business. The relative importance of these factors varies among different customer and market segments. The Company believes that it is generally competitive in all of these factors.

The Company believes that it cannot differentiate its hard drive products solely on attributes such as storage capacity; therefore, the Company also differentiates itself by designing and incorporating into its hard drives desirable product performance attributes and by emphasizing rapid response with its computer manufacturer and distribution customers and brand equity with its end users. These product performance attributes include seek time, data transfer rates, intelligent caching, failure prediction, remote diagnostics, acoustics and data recovery. Rapid response requires accelerated design cycles, customer delivery and production flexibility, which contribute to customer satisfaction. Data storage has become strategically critical for computer end users. Consequently, the Company believes that trust in a manufacturer's reputation has become an important factor in the selection of a hard drive, particularly within such a rapidly changing technology environment. The Company believes it has strong brand equity with its end users.

During 1997, the Company significantly increased its market share in the desktop hard drive market. The Company's market share eroded in 1998, primarily due to competitive conditions in the hard drive industry (with resulting cutbacks in production),

the timing of the Company's transition from thin film to magnetoresistive head technology and certain manufacturing and performance issues encountered as the Company pushed thin film head technology to its limits. The Company completed its transition to magnetoresistive technology in 1999 and began its transition to giant magnetoresistive technology; however, the competitive conditions in the hard drive industry continued and the Company's market share eroded further due to cutbacks in production.

The desktop market is characterized by more competitors and shorter product life cycles than the enterprise market; therefore, it has traditionally been subject to periods of sustained and severe price competition, and factors such as time-to-market can have a more pronounced effect on the success of any particular product.

The enterprise portion of the hard drive market is more concentrated than the desktop portion, with the two largest competitors, Seagate and IBM, having market shares approaching 40%. During the past two years price competition in the enterprise market has increased, and the Company expects that it will continue to increase. Introduction of the WD Enterprise™ drives into the enterprise market was successful because of high product quality, competitive product performance and the Company's ability to leverage its customer and supplier relations from the desktop market; however, the Company's future success in the enterprise storage market is heavily dependent on the successful development, timely introduction and market acceptance of new products.

The Company expects that the products under development by Connex will face significant competition from established manufacturers of network attached storage devices. For an additional discussion of the challenges facing Connex, see Part II, Item 7, under the heading "Risk factors related to Western Digital particularly."

Advances in magnetic, optical or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than the Company's hard drive products. Some of the Company's competitors are developing hybrid storage devices that combine magnetic and optical technologies, but the Company has decided not to pursue this technology at this time. High-speed semiconductor memory could compete with the Company's hard drive products in the future. Semiconductor memory is much faster than magnetic disk drives, but currently is volatile (i.e., subject to loss of data in the event of power failure) and much more costly. Flash memory, a nonvolatile semiconductor memory, is currently much more costly and, while it has higher "read" performance than disk drives, it has lower "write" performance. Flash memory could become competitive in the near future for applications requiring less storage capacity than hard drives can provide.

For an additional discussion of competition, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Service and Warranty

Western Digital generally warrants its newly manufactured hard drives against defects in materials and workmanship for a period of one to five years from the date of sale, based on customer needs. The Company's warranty obligation is generally limited to repair or replacement of the hard drive. The Company recently contracted with a third party in the United States to process and test returned hard drives for the Company's end

users. The Company refurbishes or repairs its products at in-house service facilities located in Singapore and at a third-party return facility located in Germany.

Manufacturing

To be competitive, Western Digital must manufacture high quality hard drives with industry leading time-to-volume production at competitive unit cost. The Company strives to maintain manufacturing flexibility, rapidly achieve high manufacturing yields and acquire high-quality components in required volumes at competitive prices. The critical elements of Western Digital's hard drive production are high volume, low cost assembly and testing, and establishment and maintenance of key vendor relationships in order to create "virtual vertical integration." By establishing partner relationships with its strategic component suppliers, the Company believes it is able to access "best-of-class" manufacturing quality without the substantial capital investment associated with actual vertical integration. In addition, the Company believes that its virtual vertical integration model enables it to have the business flexibility needed to select the highest quality low cost suppliers as product designs and technologies evolve.

Hard drive manufacturing is a complex process involving the assembly of precision components with narrow tolerances and extensive testing to ensure reliability. The assembly process occurs in a "clean room" environment which demands skill in process engineering and efficient utilization of the "clean room" layout in order to reduce the high operating costs of this manufacturing environment. The Company's clean room manufacturing process consists of modular production units, each of which contains a number of work cells. With the completed transition to magnetoresistive head technology for desktop PC hard drives, the Company has recently increased its factory yields on desktop PC hard drives to its historically high levels.

The Company produces hard drives in its two plants, one in Singapore and one in Malaysia. The Company recently announced its intention to move substantially all of its production of desktop hard drives to Malaysia, while retaining in Singapore production of enterprise drives and expanding its role in design, development and manufacturing process engineering. As a continuation of its virtual vertical integration model, the Company sold its media manufacturing division in 1999 to Komag, Inc. ("Komag"). With the sale of this division, the Company now purchases all of the standard mechanical components and micro controllers for its hard drives from external suppliers.

The Company continually evaluates its manufacturing processes in an effort to increase productivity and decrease manufacturing costs. In order to address inventory oversupply, the Company has implemented production cutbacks in its manufacturing facilities and has reduced excess manufacturing capacity through closure of one of its manufacturing facilities in Singapore and the announced relocation of the remaining Singapore desktop hard drive production to Malaysia. The Company believes that more automated manufacturing processes may be required in the future in order to be competitive in the hard drive industry and continually evaluates which steps in the manufacturing process would benefit from automation and how automated manufacturing processes support the Company's business plans.

For an additional discussion of manufacturing, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Research and Development

The Company devotes substantial resources to development of new products and improvement of existing products. The Company focuses its engineering efforts on coordinating its product design and manufacturing processes in order to bring its products to market in a cost-effective and timely manner. Research and

development expenses totaled \$150.2, \$203.7 and \$217.0 million in 1997, 1998 and 1999, respectively.

Research and development expenditures included approximately \$22.0 million, primarily related to the initiation of the IBM relationship in 1998, and approximately \$12.0 million related to the acquisition of Connex in 1999. Recurring research and development expenditures for hard drive products increased by approximately \$31.5 million from 1997 to 1998, and by \$23.3 million from 1998 to 1999, due to the Company's decision to develop a full line of enterprise hard drives, regain time-to-market leadership in the desktop hard drive market, develop a line of audio-visual hard drives and continue development of Connex new products.

For a discussion of product development, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

Materials and Supplies

The principal components currently used in the manufacture of the Company's hard drives are magnetic heads and related head stack assemblies, media, controllers, spindle motors and mechanical parts used in the head-disk assembly. In addition to its own proprietary semiconductor devices, the Company also uses standard semiconductor components such as logic, memory and microprocessor devices obtained from other manufacturers and a wide variety of other parts, including connectors, cables, and other interconnect technology.

Unlike some of its competitors, the Company acquires all of the components for its products from third-party suppliers. In general, the Company tries to have at least two or three suppliers for each of its component requirements. For example, the Company currently buys giant magnetoresistive heads from IBM, Read-Rite and SAE. IBM supplies all of the heads for the Company's desktop PC hard drives incorporating IBM technology under the IBM Agreement. Media requirements are purchased through several outside vendors including Komag, IBM and HMT Technology. In connection with the sale of its media manufacturing division to Komag in April 1999, the Company entered into a three-year volume purchase agreement with Komag. Under this Agreement, the Company is obligated to purchase a substantial portion of its requirements for hard disk media from Komag. The Agreement does not require the Company to purchase a fixed minimum amount of media from Komag. Some custom integrated circuits are currently sole-sourced from Cirrus Logic and STMicroelectronics. Because of their custom nature, these products require significant design-in periods and long lead times.

For an additional discussion of component supplies, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Backlog

At August 21, 1999, the Company's backlog, consisting of orders scheduled for delivery within the next twelve months, was approximately \$388 million, compared with a backlog at August 7, 1998 of approximately \$270 million. The Company expects all this backlog to be delivered within the current fiscal year. Historically, a substantial portion of the Company's orders has been for shipments within 30 to 60 days of the placement of the order. The Company generally negotiates pricing, order lead times, product support requirements and other terms and conditions prior to receiving a computer manufacturer's first purchase order for a product.

Manufacturers' purchase orders typically may be canceled with relatively short notice to the Company, with little or no cost to the customer, or modified by customers to provide for delivery at a later date. Also, certain of the Company's sales to computer manufacturers are made under "just-in-time" delivery contracts that do not generally require firm order commitments by the customer until the time of sale. Therefore, backlog information as of the end of a particular period is not necessarily indicative of future levels of the Company's revenue and profit and may not be comparable to earlier periods.

Patents, Licenses and Proprietary Information

The Company owns numerous patents and has many patent applications in process. The Company believes that, although its patents and patent applications have significant value, the successful manufacturing and marketing of its products depends primarily upon the technical competence and creative ability of its personnel. Accordingly, the patents held and applied for do not assure the Company's future success.

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In addition to patent protection of certain intellectual property rights, the Company considers elements of its product designs and processes to be proprietary and confidential. The Company believes that its nonpatentable intellectual property, particularly some of its process technology, is an important factor in its success. Western Digital relies upon employee, consultant, and vendor non-disclosure agreements and a system of internal safeguards to protect its proprietary information. Despite these safeguards, there is a risk that competitors may obtain and use such information. The laws of foreign jurisdictions in which the Company does business also may provide less protection for confidential information than the United States.

The Company relies on certain technology that is licensed from other parties in order to manufacture and sell its products. The Company has cross-licensing agreements with several competitors, customers and suppliers, and the Company believes that it has adequate licenses and other agreements in place in addition to its own intellectual property portfolio to compete successfully in the hard drive industry.

From time to time, the Company receives claims of alleged patent infringement or notice of patents from patent holders which typically contain an offer to grant the Company a license. It is the Company's policy to evaluate each claim and, if appropriate, enter into a licensing arrangement on commercially reasonable terms. However, there is no assurance that such licenses are presently obtainable, or if later determined to be required, could be obtained.

For additional discussion of intellectual property, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

Environmental Regulation

The Company is subject to a variety of regulations in connection with its operations. It believes that it has obtained or is in the process of obtaining all necessary permits for its domestic operations.

Employees

As of July 31, 1999, the Company employed a total of 10,390 full-time employees worldwide. This represents a reduction in headcount of approximately 20% since July 31, 1998, as the Company responded to the industry downturn and its decrease in sales. The Company employed 1,673 employees in the United States, 4,410 employees at its hard drive manufacturing facilities in Malaysia, 4,165 at its hard drive manufacturing facility in Singapore, and 142 at its international sales offices.

Many of the Company's employees are highly skilled, and the Company's continued success depends in part upon its ability to attract and retain such employees. In an effort to attract and retain such employees, the Company continues to offer employee benefit programs which it believes are at least equivalent to those offered by its competitors. Despite these programs, the Company has, along with most of its competitors, experienced difficulty at times in hiring and retaining certain skilled personnel. In critical areas, the Company has utilized consultants and contract personnel to fill these needs until full-time employees could be recruited. The Company has never experienced a work stoppage, none of its domestic employees are represented by a labor organization, and the Company considers its employee relations to be good.

Item 2. Properties

The Company's headquarters, located on leased property in Irvine, California, house management, research and development, administrative and sales personnel. The lease agreement for this facility expires in December 2000 and provides the Company with the option to extend the lease for an additional six-month period. The Company also leases facilities in San Jose, California, and Rochester, Minnesota, for research and development activities. The Company operates a hard drive design and manufacturing facility in Chai Chee, Singapore. The Chai Chee, Singapore, facility is leased. The leases referenced above expire at various times beginning in 2000 through July 2006. The Company also owns a facility in Tuas, Singapore, subject to a ground lease expiring in 2026. This Tuas, Singapore, facility is presently being held for disposition. Western Digital also owns a hard drive manufacturing facility in Kuala Lumpur, Malaysia. The Company owns a facility in Rochester, Minnesota, soon to be occupied and used for research and development activities, which

consists of a 215,000 square foot building on approximately 57 acres. The Company recently sold approximately 34 acres of land in Irvine, California, on which it previously intended to construct a new corporate headquarters.

The Company also leases office space in various other locations throughout the world primarily for sales and technical support. The Company's present facilities are adequate for its current needs, although the process of upgrading its facilities to meet technological and market requirements is expected to continue. The hard drive industry does not generally require long lead time to develop and begin operations in new manufacturing facilities.

Item 3. Legal Proceedings

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

from those projected in the forward-looking statements.

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

On February 26, 1999, the Lemelson Foundation ("Lemelson") sued the Company and 87 other companies in the U.S. District Court for the District of Arizona. The complaint alleges infringement of numerous patents held by Mr. Jerome H. Lemelson relating to, among other matters, "machine vision," "computer image analysis," and "automatic identification." The Company has reached preliminary agreement with Lemelson concerning a fully paid-up license of the patents, and Lemelson has filed a voluntary dismissal without prejudice of the complaint against the Company. Based upon the information presently known to management, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in U.S. District Court for the Central District of California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchases from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be

unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

On July 2, 1999, Magnetic Media Development, LLC ("Magnetic Media") brought suit against the Company in the United States District Court for the Northern District of California. The suit alleges infringement by the Company of four

patents allegedly owned by Magnetic Media. While the Company has not yet had an opportunity to fully study the complaint, it believes that the patents cited in the complaint are those previously cited to the Company by Mr. Virgle Hedgcoth. In a letter dated July 16, 1996, Mr. Hedgcoth gave notice of

his assertion that the Company's products infringe several of his patents. Each of the patents which Hedgcoth cited relates to magnetic media. In the letter, Hedgcoth offered the Company a license under all his patents, without specifying any amount of compensation. The Company has investigated these assertions and believes it is likely that, with respect to magnetic disks that it purchases from others and incorporates into the Company's products, it may have the right to have the vendors of such magnetic disks undertake the defense and indemnify the Company with respect to such purchased disks. The Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

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

In the normal course of business, the Company receives and makes inquiry regarding possible intellectual property matters including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements.

Although patent holders often offer such licenses, no assurance can be given that a license will be offered or that the terms of any license offered will be acceptable to the Company. Several such matters are currently pending. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial position, results of operations or liquidity of the Company.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 1999.

Executive Officers of the Registrant

The names, ages and positions of all the executive officers of the Company as of August 20, 1999 are listed below, followed by a brief account of their business experience during the past five years. Executive officers are normally appointed annually by the Board of Directors at a meeting of the directors immediately

following the Annual Meeting of Shareholders. There are no family relationships among these officers nor any arrangements or understandings between any officer and any other person pursuant to which an officer was selected.

"Storage capacity" – the amount of data that can be stored on the hard drive – commonly expressed in gigabytes.

"Average seek time" – the time needed to position the heads over a selected track on the disk surface – commonly expressed in milliseconds.

"Internal data transfer rate" – the rate at which data is transferred to and from the disk – commonly expressed in megabits per second.

"Spindle rotational speed" – the rotational speed of the disks inside the hard drive – commonly expressed in rpms or revolutions per minute.

Messrs. Haggerty, Massengill, Campbell, Slavin and Duston Williams have been employed by the Company for more than five years and have served in various executive capacities with the Company before being appointed to their present positions.

Mr. Stern joined the Company in November 1994 as Vice President, New Product Introductions. He also served as Vice President, Asian Operations for the Personal Storage Division and became Senior Vice President, Engineering, Personal Storage Division in July 1998. He was promoted to his current position in July 1999. Immediately prior to joining the Company, he served as Vice President, Asian Operations for MiniStor Peripherals Corporation.

Mr. Shakeel joined the Company in 1985 as Product Manager, Integrated Drive Electronics. Mr. Shakeel served in various executive capacities, including Vice President, Materials – Asia, until October 1997, when he left the Company to become Managing Director of Mahlin Associates, a supplier of electromechanical components in Singapore. Mr. Shakeel rejoined the Company in April 1999 as Senior Vice President of Operations, Drive Products Division. He was promoted to his current position in July 1999.

Mr. Michael Williams joined the Company in September 1998 as General Manager, Enterprise Storage Group. He assumed his current position in February 1999. Prior to joining the Company, he was a founder and served as Vice President, Engineering, of Ridge Technologies, a manufacturer of enterprise-class storage systems and subsidiary of Adaptec, from July 1997. Ridge Technologies was the predecessor to Connex, Inc. Prior to this, Mr. Williams served in various engineering and management positions at Apple Computer for 10 years.

Mr. Cornelius joined the Company in his current position in January 1995. Prior to joining the Company, he held the position of Vice President of Corporate Affairs for Nissan North America for two years.

Mr. Van Berkel joined the Company in January 1995 as Director of Human Resources for the Personal Storage Division and was promoted to his current position in May 1997. Prior to joining the Company, he served as Vice President of Human Resources for Walker Interactive Systems for five years.

Western Digital's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "WDC." The approximate number of holders of record of common stock of the Company as of September 17, 1999 was 3,874.

The Company has not paid any cash dividends on its common stock and does not intend to pay any cash dividends on common stock in the foreseeable future. The Company's line of credit agreement prohibits the payment of such dividends.

The high and low sales prices of the Company's common stock, as reported by the NYSE, for each quarter of 1998 and 1999 are as follows:

Name	Age	Position
Charles A. Haggerty	57	Chairman of the Board, President and Chief Executive Officer
Matthew E. Massengill	38	Co-Chief Operating Officer
Russell R. Stern	43	Co-Chief Operating Officer
Steven G. Campbell	44	Senior Vice President, Desktop Solutions
Arif Shakeel	44	Senior Vice President, Worldwide Operations
Duston M. Williams	41	Senior Vice President and Chief Financial Officer
W. Michael Williams	40	Senior Vice President and General Manager, Connex, Inc.
Michael A. Cornelius	57	Vice President, Law and Administration, and Secretary
Steven M. Slavin	48	Vice President, Taxes and Treasurer
Jack Van Berkel	39	Vice President, Human Resources

On February 1, 1999, the Company's wholly owned subsidiary, Western Digital Rochester, Inc., merged with and into Connex, whereby Connex was the surviving corporation and all previously issued and outstanding shares of Connex were canceled and exchanged for common stock of the Company. This resulted in an aggregate of 575,662 shares of common stock of the Company being issued to the shareholders of Connex. This transaction was undertaken in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), afforded by Section 4(2) thereof, as a transaction not involving a public offering. The recipients of the Company's common stock received in connection with the Connex transaction acquired them for their own account and not with a view to any distribution thereof to the public. The certificates evidencing this common stock bear restrictive legends stating that the shares may not be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act or an exemption from such registration requirements. The Company believes that exemptions other than those specified above may exist with respect to the transaction set forth above.

Item 6. Selected Financial Data

Financial Highlights

	First	Second	Third	Fourth
1998				
High	\$54 3/4	\$49 9/16	\$20 7/16	\$22 1/16
Low	30 5/8	14 1/2	14 3/4	10 1/4
1999				
High	\$13 1/2	\$18 9/16	\$21 7/16	\$ 9 7/8
Low	8	7 1/8	8 1/2	6 1/4

No cash dividends were paid for the years presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Western Digital is a leading supplier of hard drives for desktop and enterprise computers. The hard drive industry is intensely competitive and has experienced a great deal of growth, entry and exit of firms, and technological change over the past several years. This industry is characterized as a high-tech commodity business with short product life cycles, dependence upon highly skilled engineering and other personnel, significant expenditures for product development and recurring periods of oversupply.

The Company's operating results during 1999 deteriorated primarily as a result of increased pricing competition, particularly in the desktop storage market. Although the business environment was challenging in 1999, the Company continued to make significant investments in its existing desktop and enterprise product lines, and acquired a start-up company which will add new product lines to the Company in 2000. During the year, the Company also restructured its operations and completed the sale of its media business to Komag.

In December 1998, the Company formed a strategic partnership with Sony Corporation to co-develop a new hard disk drive ("HDD") for consumer audio and video ("AV") applications. The collaborative agreement calls for Sony to develop the interface, architecture, and protocol for AV applications, while the Company will be responsible for developing the mechanical and electronic components and firmware of the HDD. Each company will contribute its respective expertise to the development effort. Sony will contribute in the areas of digital video and audio processing and Western Digital in HDD design and manufacturing technology. Commercialization of the AV HDD is being targeted for the first half of calendar 2000.

In February 1999, the Company acquired Connex for approximately \$12.0 million. Connex had, at the time of the acquisition, several in-process research and development projects. The Company is continuing development efforts and expects to ship the first new products developed by Connex in January 2000.

Cost-saving and organizational restructuring measures were taken in 1999 to improve the Company's financial performance and responsiveness to changing industry conditions. In January 1999, the Company initiated a restructuring program that resulted in the combination of its Personal Storage Division and Enterprise Storage Group into a single hard drive operating unit, the Drive Products Division ("DPD"), which combined design, manufacturing, materials, business and product marketing resources to address both the desktop and enterprise markets. In connection with combining the divisions, the Company's Tuas,

Singapore facility was closed and production of its enterprise drives was moved to the Company's nearby manufacturing facility in Chai-Chee, Singapore. The combination resulted in a \$41.0 million charge to operations in the third quarter. The Company has realized and expects to further realize operating efficiencies as a result of the combination.

In April 1999, the Company completed the sale of its Santa Clara disk media operations to Komag. Terms of the sale agreement include a three-year volume purchase agreement under which the Company must purchase a significant percentage of its media requirements from Komag. The agreement does not require the Company to purchase a fixed minimum amount of media from Komag. As a result of the sale, the Company recorded a fourth-quarter charge to operations of \$20.0 million. Prior to the sale, Komag was already a long-time media supplier to the Company. The two companies plan to work closely on the design and development of media for future hard drive products. These efforts should further enhance the time-to-market of the Company's drive designs and lower its component costs through the efficiencies of

Komag's global high-volume media manufacturing facilities.

On July 8, 1999, a further restructuring of operations and management responsibilities was announced. The structural change established a Worldwide Operations and Geographies structure and a Lines of Business/ Research and Development organization ("LOB"). The assignment of LOB's and geographic responsibilities is expected to help the Company focus on narrower vertical markets, and on specific geographic territories and customers. The restructuring is also expected to enable the Company to be more responsive to its markets and to encourage faster, more focused, customer-oriented decision-making. The restructuring resulted in a reduction of worldwide employee headcount of approximately 40 employees, approximately 25 of whom were direct and indirect labor and the rest were management, professional and administrative personnel. The Company expects to record a charge to operations, primarily for severance accruals, of approximately \$2 million in the first quarter of 2000.

On July 20, 1999, the Company's chairman, president, and chief executive officer, Chuck Haggerty, announced his plans to retire by the end of June 2000, or upon the Company's appointment of a new president and CEO. Currently the new operating and management structure is led by co-chief operating officers.

On August 13, 1999, the Company announced its intention to move substantially all of its production of desktop hard drives to Malaysia, while retaining in Singapore production of enterprise drives and expanding its role in design, development and manufacturing process engineering. The Company expects to finalize its plans relative to the restructuring by the end of its first quarter. The Company expects that the transfer of production of desktop hard drives to its Malaysia facility will result in a reduction of employee headcount in Singapore by the end of December 1999 of approximately 2,000 direct and 500 indirect workers and a charge to operations during the first half of 2000 of approximately \$30 million relating to the write-off of fixed assets to be disposed of, lease cancellations, and employee severance and other costs of vacating leased properties. The Company expects that the transfer to its Malaysia facility will result in an employee headcount increase in Malaysia of approximately 2,000 workers by the end of December 1999. The Company also expects that this restructuring, along with the January 1999 consolidation of its Singapore facilities, will result in a combined annualized cost savings of approximately \$100 million.

On September 27, 1999, the Company announced a recall of up to 400,000 of its 6.8GB per platter series of WD Caviar desktop hard drives which are in completed computer systems, because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. Approximately 1.2 million units were manufactured with the faulty chip, but the Company believes the remaining drives are either in the Company's or its customers' inventory. Replacement of the chips will involve rework of the printed circuit board assembly. The Company expects that it will be able to resume production of the hard drives with new chips by approximately October 11, 1999. The Company has not yet quantified the total impact of the recall, rework, and manufacturing stoppage on its financial position, results of operation, or liquidity, although it believes it will be material. The special charges associated with the cost of recalling and repairing the affected drives are not expected to exceed \$50 million. This estimate excludes any impact on the Company's revenues or market share. The Company has not yet determined how much of the potential loss might be recoverable from insurance sources and from the supplier of the faulty chip.

In 1997, the Company reported net income of \$267.6 million compared with net losses of \$290.2 and \$492.7 million in 1998 and 1999, respectively. The deterioration in operating performance from 1997 to 1998 occurred because of a 15% decrease in revenues, a 13 percentage point decline in gross profit margin and a three percentage point increase in operating expenses as a percentage of revenues. The increase in operating loss from 1998 to 1999 resulted from a 22% decrease in revenues, a three percentage point decrease in gross margin, and a six percentage point increase in operating expenses as a percentage of revenues. The net loss in 1998 included charges of \$148 million recorded in the second quarter, primarily to cost of sales, and \$22 million of costs recorded in the fourth quarter to research and development ("R&D") principally related to the start-up of the IBM Agreement. The net loss in 1999 included approximately \$77 million of charges for incremental thin-film warranty provisions and approximately \$7.5 million in Malaysian currency losses recorded in the first quarter, \$12.0 million of in-process research and development write-offs associated with the acquisition of Connex in the third quarter, and restructuring charges totaling \$61.0 million for the consolidation of the Company's Personal Storage Division and Enterprise Storage Group and sale of its media operations in the third and fourth quarter, respectively.

Sales of hard drive products, which comprise 100% of the Company's revenues, were \$4.2, \$3.5 and \$2.8 billion in 1997, 1998 and 1999, respectively. A unit shipment decrease of 6% from 1997 to 1998, which, combined with reductions in the average selling prices of hard drive products due to an intensely competitive hard drive business environment, resulted in a 15% decline in hard drive revenues. During 1999, a unit shipment decrease of 5% from 1998, combined with further reductions in average selling prices, resulted in a 22% decline in hard drive revenues.

Gross profit margins for 1997, 1998 and 1999 were 15.6%, 2.8% and 0%, respectively. The reduction in gross profit margin in 1998 was primarily related to unusually severe competitive pricing pressures experienced in the desktop storage market during the last three quarters. The Company also experienced higher assembly costs associated with extending the life of thin film head technology in desktop storage products and the accelerated transition to hard drives utilizing magnetoresistive heads. The \$140 million of charges recorded in the second quarter of 1998 (discussed below) also contributed to the decline in gross profit margin. Partially offsetting these amounts were incremental sales of the Company's higher margin enterprise storage products in 1998.

During the second quarter of 1998, the Company incurred \$148 million of special charges as a result of its decisions to reduce its exposure to the sustained oversupply and unusually competitive pricing pressures in the lower capacity portion of the hard drive marketplace, and to sharpen its focus and resources on its desktop and enterprise storage product lines. This decision led the Company to accelerate its transition to magnetoresistive head technology and to redeploy the resources which were being used on development of its mobile disk drive product line back to its core desktop and enterprises disk drive products. The special charges included approximately \$49 million of vendor purchase order cancellation charges on older, thin-film technology components due to reduced production of thin-film products, \$35 million for write-down of inventory and service center stock, \$24 million for incremental warranty accruals on older technology products, \$10 million for write-offs of investments in companies developing advanced thin-film and mobile disk drive technologies, \$8 million of mobile engineering development expenses incurred during the quarter, and \$22 million of other incremental costs incurred within the quarter associated with the accelerated transition out of older, thin-film technology into magnetoresistive products. Of the total \$148 million special charges, approximately \$8 million was recorded in research and development expense and \$140 million was recorded in cost of sales. Since these charges were either incurred during the second quarter of 1998, or resulted from liabilities incurred or assets impaired upon the Company's decision in the

second quarter to implement these actions, the entire \$148 million was recorded in the second quarter of 1998. The inventory referred to above was scrapped or subsequently sold at or slightly above its adjusted book value with minimal gross margin impact. The Company substantially completed its transition to magnetoresistive products by the fourth quarter of 1998, largely as planned, improving its technology leadership position relative to its competitors. Of the total

charges, approximately \$100 million required the use of cash. There were no significant subsequent changes to the cost estimates associated with the special charges.

The reduction of gross profit margin in 1999 was primarily due to continued competitive pricing pressure in the desktop storage market, a reduction in sales of higher margin enterprise storage products, and a first quarter special charge of \$77 million to increase warranty accruals associated with the Company's last generations of thin film desktop products. Excluding special charges, gross profit margins for 1998 and 1999 were 7% and 2.7%, respectively.

The overall increase in the Company's warranty accruals from 1998 to 1999 was primarily due to a normal increase in units under warranty and the completion of the Company's transition in its desktop product line from thin-film to the newer magnetoresistive head technology in the June 1998 quarter. This transition and recent experience with thin film returns, which indicated a higher return rate, higher cost of repair and longer duration of returns within the warranty period, resulted in an increase in warranty accruals. Prior to the first quarter of 1999, the Company's experience with returns of older generation thin-film products was that a large percentage of the products which were going to fail, failed in the first six months after sale. However, with the advancements in thin-film recording technology, the gaps between critical components (principally the recording heads and disks) within the drive became much smaller until they were almost in contact with one another. This made the thin-film drives much more susceptible to environmental factors which typically manifest themselves over longer periods of time, such as gases released from the surrounding environment that may permeate through or from other components in the drive. During the first quarter of 1999, the Company began to see consistent data indicating a higher percentage of these advanced thin-film drives coming back after the first six months. That, combined with the significant amount of these drives that were now in the field, led to a higher lifetime return rate being applied to a larger base of products in the field. This resulted in a special charge to warranty provision of \$77 million in the first quarter of 1999.

Research and development expense was \$150.2 million, or 3.6% of revenues, \$203.7 million, or 5.8% of revenues, and \$217.0 million, or 7.8% of revenues in 1997, 1998 and 1999, respectively. The increase in absolute dollars spent from 1997 to 1998 was primarily associated with higher expenditures to support the development of hard drives for the desktop and enterprise storage markets and costs of \$22.0 million recorded in the fourth quarter of 1998 related principally to the start-up of the IBM Agreement.

The increase in absolute dollars spent from 1998 to 1999 was primarily due to the third quarter \$12.0 million charge to in-process research and development related to the acquisition of Connex and higher spending due to the Company's decisions to develop a full line of enterprise hard drives, regain time-to-market leadership in the desktop hard drive market, develop a line of audio-visual products, and continue Connex development spending. At the time of the acquisition, Connex was a development stage operation with no commercial products yet available for sale and several in-process research and development projects which were approximately 40% complete. The

major projects acquired include industry standard storage systems and storage management software solutions for both Windows NT and UNIX server environments. The Company's primary purpose for the acquisition was to acquire these in-process projects and complete the development efforts as the Company believed they had economic value but had not yet reached technological feasibility, and had no alternative future uses. Therefore, the Company allocated substantially all of the purchase price to a one-time charge for in-process research and development of \$12.0 million to the Company's results of operations in 1999. Approximately \$0.4 million of assets were acquired in the acquisition. Due to the small size of the Connex acquisition, the \$12.0 million dollar purchase price was determined based on an arms-length negotiation. Approximately \$8 million in development and administrative expenses (approximately \$5 million for network attached storage systems and \$3 million for network storage management software) were incurred during fiscal 1999 after the acquisition.

The Company is continuing the Connex development efforts and expects to begin shipping the first new products developed by Connex in January 2000. Following the acquisition, expenditures of approximately \$27 million (\$10 million for network attached storage systems and \$17 million for network storage management software) were estimated to complete the development of the two projects. The primary risks and uncertainties associated with timely completion of the projects lie in the Company's ability to attract and

retain qualified software engineers in the current competitive environment. Should the projects not be completed on a timely basis, the Company's first-to-market advantages would be reduced (e.g. lower margins), or an alternative technology might be developed by a competitor which could severely impact the marketability of the Company's planned products. Should the projects prove to be unsuccessful, the impact on the fiscal year 2000 results of operations would primarily consist of the engineering and start up efforts incurred to complete the projects for which there would be no future value, plus the costs of any new efforts on replacement projects and/ or costs to unwind the infrastructure if a decision were made not to pursue new efforts.

Selling, general and administrative expenses ("SG&A") were \$198.5 million, or 4.8% of revenues, \$192.1 million, or 5.4% of revenues and \$196.0 million, or 7.1% of revenues, in 1997, 1998 and 1999, respectively. The decrease in absolute dollars of SG&A expense from 1997 to 1998 was primarily the result of lower expenses for the Company's pay-for-performance and profit sharing plans, partially offset by higher expenses associated with implementing the Company's new computer information systems. The increase in absolute dollars of SG&A expense from 1998 to 1999 was primarily the result of the special charges recorded in the first quarter for losses on terminated forward exchange contracts on the Malaysian Ringgit, partially offset by decreased marketing expenditures due to the Company's cost-cutting initiatives.

Net interest income was \$13.2 and \$3.8 million in 1997 and 1998, respectively. Net interest expense was \$15.9 million in 1999. The decline in net interest income from 1997 to 1998 was primarily attributable to interest expense incurred on the Company's long-term debt consisting of a \$50.0 million term loan, which is part of the Company's secured revolving credit and term loan facility ("Senior Bank Facility"), and accrual of original issue discount on the Company's 5.25% zero coupon convertible subordinated debentures due 2018 (the "Debentures") which were issued in February 1998. No debt was outstanding during 1997. Partially offsetting this decrease was incremental interest income earned on the cash and cash equivalents balance in 1998, which was higher than historical levels due to the proceeds from the term loan and sale of the Debentures. The change in net interest income in 1998 to

net interest expense in 1999 was primarily due to a full year's accrual of original issue discount on the Debentures, a full year of interest expense incurred on the \$50.0 million term loan partially offset by a reduced amount of interest income earned on the Company's cash and cash equivalent balances, which were lower in 1999.

The Company's 1997 effective tax rate of 15% resulted primarily from the earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with United States statutory rates and changes in the deferred tax asset valuation allowance (see Note 5 of Notes to Consolidated Financial Statements). The income tax benefit recorded in 1998 represented the expected benefit of loss carrybacks, partially offset by provisions for income taxes recorded in certain jurisdictions where the Company had positive earnings. In 1999 there was no tax benefit recorded as no additional loss carrybacks were available and management deemed it was more likely than not that the deferred tax benefits generated would not be realized.

Liquidity and Capital Resources

At July 3, 1999, the Company had \$226.1 million of cash and cash equivalents compared to \$459.8 million at June 27, 1998. Net cash used for operating activities was \$139.5 million during 1999 compared to \$39.0 million in 1998. Cash flows resulting from a decrease in accounts receivable, lower inventories and higher current liabilities were more than offset by the higher net loss (net of non-cash charges). Significant uses of cash during 1999 were capital expenditures of \$106.6 million. The capital expenditures were incurred primarily to upgrade the Company's production capability, the normal replacement of existing assets, and further development of the Company's new computer information systems. Partially offsetting these uses of cash was \$15.0 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

The Company anticipates that capital expenditures in 2000 will total approximately \$75 million and will relate to retooling of the Company's hard drive assembly lines in order to accommodate new technologies and new product lines, normal replacement of existing assets and expansion of production capabilities in Malaysia. The Company's 2000 research and development programs include planned spending of approximately

\$19 million in the first three quarters of 2000 to complete development of its first products by Connex, which are scheduled to begin shipping in January 2000. The Company also anticipates cash expenditures of \$3.0 million and \$16.0 million to be paid in 2000 for severance and outplacement costs related to the Company's 1999 and 2000 restructuring programs, respectively.

The Senior Bank Facility provides the Company with up to a \$125.0 million revolving credit line (depending on borrowing base calculation) and a \$50.0 million term loan, both of which expire in November 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR or a base rate plus a margin determined by the borrowing base, with option periods of one to three months. The Senior Bank Facility requires the Company to maintain certain amounts of net equity, prohibits the payment of cash dividends on common stock and contains a number of other covenants. The Company was in compliance at July 3, 1999 with all terms of the Senior Bank Facility. As of the date hereof, the \$50.0 million term loan was funded, but there were no borrowings under the revolving credit line. The term loan requires quarterly payments of \$2.5 million

beginning in September 1999 with the remaining balance due in November 2001. The costs of the product recall announced on September 27, 1999 may result in the Company not being in compliance with certain financial covenants in the Senior Bank Facility in future periods. The availability of this facility will depend upon, among other things, the actual cost of the recall and the Company's ability to recover such costs from third parties.

The Company has an equity draw-down facility ("Equity Facility") with a bank which allows the Company to issue up to \$150.0 million (in monthly increments of up to \$12.5 million) in common stock for cash at the market price of its stock less a 2.75% discount. As of July 3, 1999, the Equity Facility had not been used. During July through September 29, 1999, the Company issued 6.2 million shares of common stock under the Equity Facility for net proceeds of \$32.2 million.

In February 1998, the Company received gross proceeds of \$460.1 million (before the Initial Purchasers' discount) from a private offering of the Debentures. The principal amount at maturity of the Debentures when issued was \$1.3 billion. The Debentures are subordinated to all senior debt; are convertible into shares of the Company's common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of repurchase.

During the period from July 27, through September 17, 1999, the Company issued 6.1 million shares of common stock in exchange for Debentures with a carrying value of \$79.6 million, and an aggregate principal amount at maturity of \$207.1 million, in non-cash transactions. These Debentures were subsequently retired by the Company. These exchanges were private, individually negotiated transactions with certain institutional investors. The Company expects to record an extraordinary gain of approximately \$45 million during the quarter ending October 2, 1999 for the difference between the carrying value of the retired Debentures and the market value of the common stock given by the Company at the time of the exchange.

On August 9, 1999, the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for \$26 million (the approximate cost of the land). The Company has extended the current lease of its worldwide headquarters in Irvine, California, through December 2000, and has an option to extend the lease for an additional six-month period.

The Company expects to continue to incur operating losses in 2000. The Company also had negative shareholders' equity as of July 3, 1999. However, the Company had cash balances of \$226.1 million as of July 3, 1999. In addition, the Company has restructured or is in the process of restructuring its operations and has other sources of liquidity available. In light of these conditions, the Company has the following plans and other options:

Years Ended

July 1,
1995

June 29,
1996

June 28,
1997

June 27,
1998

July 3,
1999

	(in millions, except per share and employee data)				
Revenues, net	\$2,130.9	\$2,865.2	\$4,177.9	\$3,541.5	\$2,767.2
Gross profit (loss)	394.1	382.1	650.3	100.1	(2.8)
Operating income (loss)	133.0	77.5	301.6	(295.8)	(476.8)
Net income (loss)	\$ 123.3	\$ 96.9	\$ 267.6	\$ (290.2)	\$ (492.7)
Earnings (loss) per share:					
Basic	\$ 1.34	\$ 1.05	\$ 3.07	\$ (3.32)	\$ (5.51)
Diluted	\$ 1.23	\$ 1.01	\$ 2.86	\$ (3.32)	\$ (5.51)
Working capital	\$ 360.5	\$ 280.2	\$ 364.2	\$ 463.5	\$ 61.7
Total assets	\$ 858.8	\$ 984.1	\$1,307.1	\$1,442.7	\$1,002.4
Total long-term debt	\$ —	\$ —	\$ —	\$ 519.2	\$ 534.1
Shareholders' equity (deficiency)	\$ 473.4	\$ 453.9	\$ 620.0	\$ 317.8	\$ (153.8)
Number of employees	7,647	9,628	13,384	13,286	10,503

• The Company plans to reduce expenses and capital expenditures substantially as compared to historical levels due to:

• The Company has the following additional sources of liquidity available to it:

- Recent restructurings;
- Reduced general and administrative spending; and
- Reduced infrastructure resulting from the sale of its Santa Clara disk media operations.
- \$150.0 million Equity Facility (partially utilized as of September 1999);
- Sale of land in Irvine, California (sold on August 9, 1999 for approximately \$26 million);
- Other unencumbered real estate which can be sold or financed; and
- Other equity investments that may be disposed of during 2000.

Based on the above factors, the Company believes its current cash balances, its Equity Facility, and other liquidity vehicles currently available to it, will be sufficient to meet its working capital needs through 2000. There can be no assurance that the Senior Bank Facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Risk factors pertaining to Western Digital particularly."

New Accounting Pronouncements

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

Year 2000

The Company has considered the impact of Year 2000 issues on its products, computer systems and applications and is working aggressively to achieve Year 2000 readiness. Overall Company readiness includes systems remediation, integration testing and supplier management. Systems remediation and integration testing is expected to be completed by the end of September 1999. The Company also expects to complete development of its contingency plans by the end of September 1999. Supplier management is an

ongoing process and will continue up to and including a period of time after January 1, 2000. Expenditures related to the Year 2000 project, which excludes normal replacement of existing capital assets, were approximately \$5 million and \$6 million in 1998 and 1999, respectively, and are expected to amount to approximately \$13 million in total. For an additional discussion of Year 2000 issues, see "Risk factors relating to Western Digital particularly."

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

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

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

- The recent exchange of Debentures for common stock reduces the shareholders' deficiency of the Company.

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

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

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

We must complete our transition to giant magnetoresistive head technology.

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

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

If one of our competitors were able to implement a significant advance in head or disk drive technology that enables a

step-change increase in areal density allowing greater storage of data on a disk, it would harm our operating results.

Advances in magnetic, optical, semiconductor or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than our products. Some of our competitors are developing hybrid storage devices that combine magnetic and optical technologies, but we have decided not to pursue this technology at this time. If these products prove to be superior in performance or cost per unit of capacity, we could be at a competitive disadvantage to the companies offering those products.

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

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or gain market share. In

addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. For example, during 1997, we significantly increased our share of the desktop market, but these gains were lost during 1998 and 1999. If our market share erodes further, it would likely harm our operating results.

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

Demand for our hard drives depends on the demand for computer systems manufactured by our customers and on storage upgrades to existing systems. The demand for computer systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market tends to experience periods of excess capacity which typically lead to intense price competition. If intense price competition occurs, we may be forced to lower prices sooner and more than expected and transition to new products sooner than expected. For example, in 1999 and the second half of 1998, as a result of excess inventory in the desktop hard drive market, aggressive pricing and corresponding margin reductions materially adversely impacted our operating results. We experienced similar conditions in the high-end hard drive market during most of 1998 and 1999.

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

Over the past two years the consumer market for desktop computers has shifted significantly towards lower priced systems, especially those systems priced below \$1,000. If the market for those lower price systems continues to grow and we do not develop lower cost hard drives that can successfully compete in this market, our market share would likely fall, which could harm our operating results.

Furthermore, the PC market is fragmenting into a variety of computing devices and products. Some of these products, such as internet appliances, may not contain a hard drive. On the other

hand, many industry analysts expect, as do we, that as broadcasting and communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics and communication devices will converge, and hard drives will be found in many consumer products other than computers. While we are investing development resources in designing hard drive products for new audio-visual applications, it is too early to assess the impact of these new applications on future demand for hard drive products.

We depend on our key personnel.

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

Risk factors relating to Western Digital particularly

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

A majority of our revenue comes from a few customers. For example, during 1999 sales to our top 10 customers accounted for approximately 58% of revenues. These customers have a wide variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed.

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

To succeed in the enterprise hard drive portion of the market, we must develop and timely introduce new products, and we must increase the number of customers for our products. A risk we face in expanding our product line is that there is currently a world-wide shortage of qualified hard drive engineers. As a result, competition for skilled hard drive development engineers is intense. We also may encounter development delays or quality issues, which may retard the introduction of new products or make the introduction of new products more expensive. If we experience any of these setbacks, we may miss crucial delivery time windows on these new enterprise products, which would likely harm our operating results.

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

Because we do not manufacture any of the components in our hard drives, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could harm us more severely than our competitors, some of whom manufacture certain of the components for their hard drives. A number of the components used by us are available from a single or limited number of qualified outside suppliers. If a

component is in short supply, or a supplier fails to qualify, or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. To reduce this risk, we attempt to provide significant lead times when buying these components. As a result, we may have to pay significant cancellation charges to suppliers if we cancel orders, either because of market oversupply or transition to new products or technologies. This occurred in 1998 when we accelerated our transition to magnetoresistive recording head technology.

In April 1999, we entered into a three year volume purchase agreement with Komag under which we will buy a substantial portion of our media components from Komag. We intend that this strategic relationship will reduce our media component costs; however, it increases our dependence on Komag as a supplier. Our future operating results will depend substantially on Komag's ability to timely qualify its media components in our new development programs and to supply us with these components in sufficient volume to meet our production requirements. Any disruption in Komag's ability to manufacture and supply us with media would likely harm our operating results.

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

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

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

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

Manufacturing our products abroad subjects us to numerous risks.

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

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

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- obtaining requisite United States and foreign governmental permits and approvals
 - currency exchange rate fluctuations or restrictions

We attempt to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward exchange contracts. However, those contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place, as occurred in Malaysia during the first quarter of 1999.

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

In 1998 we entered into a broad-based hard drive component supply and technology licensing agreement with IBM. Under the IBM Agreement, IBM is our sole supplier of the head and certain other components for desktop hard drives that we manufacture with IBM technology. Our business and operating results would be harmed if these components fail to satisfy our quality requirements or if IBM is unable to meet our volume or delivery requirements. Our business and operating results could also be harmed if we are unable to adapt IBM's product designs and manufacturing processes so that the hard drives with IBM technology can be manufactured by us at a low enough cost to compete in the high-volume and price sensitive desktop market.

We entered into the agreement expecting that IBM will continue to lead the hard drive industry in storage capacity and performance. We also believed that we could leverage that leadership to give us a competitive advantage in the desktop portion of the market through being faster to market with new products and faster in reaching levels of volume at which our costs would decrease. If IBM does not maintain that leadership, we may not realize the benefits we had anticipated.

Agreement with IBM requires us to adapt IBM's product designs and integrate IBM technology.

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

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

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

The hard drive industry has been characterized by significant litigation. This includes litigation relating to patent and other intellectual property rights, product liability claims and other types of litigation. We are

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

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

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

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.

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

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

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

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

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

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

The market price of our common stock is volatile.

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

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

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

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

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

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

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

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

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

- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures
- developments with respect to patents or proprietary rights
- conditions and trends in the hard drive industry
- changes in financial estimates by securities analysts relating specifically to us or the hard drive industry in general.

Our Products. We believe our hard drive products are Year 2000 compliant, although some older, non-hard drive products previously sold by us may not be Year 2000 compliant. Even if our products are Year 2000 compliant, we may be named as a defendant in litigation against makers of components of systems that are

unable to properly manage data related to the Year 2000. Our agreements with customers typically contain provisions designed to limit our liability for such claims. These provisions may not provide protection from liability, however, because of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. Any such claims, with or without merit, could materially harm our business.

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

We have committed people and resources to resolve potential Year 2000 issues, both internally and with respect to our suppliers and customers, for both information technology assets and non-information technology assets. We identified Year 2000 dependencies in our systems, equipment and processes and we have implemented changes to such systems, updating or replacing such equipment, and modifying such processes to make all such mission-critical systems and substantially all other systems Year 2000 compliant. Each of our business sites has identified mission critical systems for which contingency plans have been developed in the event of any disruption caused by Year 2000 problems. Testing of our business applications has been completed, and test results are being reviewed. Follow-up remediation on non-mission critical systems resulting from the testing is expected to be completed by the end of September 1999.

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

We are also communicating with our large customers to determine the extent to which we are vulnerable to their failure to remedy their own Year 2000 issues. We also rely, both domestically and internationally, particularly in Singapore and Malaysia where we have our manufacturing facilities, upon governmental agencies, utility companies, telecommunication service companies,

transportation service providers and other service providers outside of our control. We have less control over assessing and remediating Year 2000 issues of third parties. As a result, we cannot insure that these third parties will not suffer business disruption caused by a Year 2000 issue, which, in turn, could materially harm our business.

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

We are currently examining these risk areas to develop responses and action plans. These include a production halt at our Asian manufacturing facilities on December 31 and system access shutdown at all locations on December 31, 1999, and systems test and controlled startup prior to business resumption on January 1, 2000. We do not expect the production halt to affect our commitments to our customers. We expect to complete the development of our contingency plans by the end of September 1999. To date, detailed contingency plans have been developed to support each business process which enables us to execute our primary operations, including administration and fiduciary obligations. The plans provide detailed work instructions and roles and responsibility matrices in order to transition rapidly to manual back-up systems in

the event of electronic systems failures. These plans are being reviewed with customers and logistics providers to ensure compatibility with our external business partners. Managers and employees will be participating in scenario planning drills during the month of October 1999 to optimize readiness.

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

Expenditures related to our Year 2000 project, which excludes normal replacement of existing capital assets, were approximately \$11 million through July 3, 1999, and are expected to amount to approximately \$13 million in total. Based on work to date, we believe that the Year 2000 issue will not pose significant operational problems for us.

Many of our disclosures and announcements regarding our products and Year 2000 programs are intended to constitute "Year 2000 Readiness Disclosure" as defined in the Year 2000 Information and Readiness Disclosure Act. The Act provides added protection from liability for certain public and private statements concerning an entity's Year 2000 readiness and the Year 2000 readiness of its products and services. The Act also potentially provides added protection from liability for certain types of Year 2000 disclosures made after January 1, 1996, and before the date of enactment of the Act.

**Item 7A. Quantitative and Qualitative Disclosures
About Market Risk**

Disclosure About Foreign Currency Risk

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

Historically, the Company has focused on hedging its foreign currency risk related to the Singapore Dollar and the Malaysian Ringgit. With the establishment of currency controls and the prohibition of purchases or sales of the Malaysian Ringgit by offshore companies, the Company has discontinued hedging its Malaysian Ringgit currency risk. Future hedging of this currency will depend on currency conditions in Malaysia. The imposition of exchange controls by the Malaysian government resulted in a \$7.5 million realized loss on terminated hedging contracts in the first quarter of 1999.

As of July 3, 1999, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

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

	July 3, 1999		
	Contract Amount	Weighted Average Contract Rate	Unrealized Loss*
	(U.S. Dollar equivalent amounts)		
Foreign currency forward contracts:			
Singapore Dollar	\$63.2	1.66	\$.8
British Pound Sterling	3.2	1.61	.1
	\$66.4		\$.9

In 1997, 1998, and 1999 total realized transaction and forward exchange contract currency gains and losses (excluding the \$7.5 million realized loss on the Malaysian Ringgits), were immaterial to the financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates (up to 25%) would materially impact the Company's consolidated financial statements.

Disclosure About Other Market Risks

Fixed Interest Rate Risk

At July 3, 1999, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately \$225.4 million, compared to the related carrying value of \$494.1 million. The convertible debentures will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008, or

February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption.

The Company has various note receivables from other companies. All of the notes carry a fixed rate of interest. Therefore a significant change in interest rates would not impact the Company's consolidated financial statements.

Variable Interest Rate Risk

The Company maintains a \$50.0 million term loan bearing interest at LIBOR or a base rate plus margin determined by the borrowing base with an approximate current interest rate of 7.75%, as part of its Senior Bank Facility. This is the only debt which does not have a fixed-rate of interest. A significant change in interest rates (up to 12%) would not materially impact the Company's consolidated financial statements. The Senior Bank Facility expires in November 2001.

Fair Value Risk

The Company owns approximately 10.8 million shares of Komag, Inc. stock. (See Note 8 of Notes to Consolidated Financial Statements). The estimated fair market value of the Komag stock on the date of acquisition was \$34.9 million. The stock is restricted as to the percentage of total shares which can be sold in a given time period (see Note 8 of Notes to Consolidated Financial Statements.) The unrestricted portion of the total Komag shares acquired represents the shares which can be sold within one year. The Company reviews, on a quarterly basis, the fair market value of the unrestricted Komag shares and records an unrealized gain or loss resulting from the difference in the fair market value of the unrestricted shares as of the previous quarter end and the fair market value of the unrestricted shares on the measurement date. As of July 3, 1999, a \$2.1 million unrealized loss has been recorded and is shown as a component of stockholders' deficit. If the Company sells all or a portion of this stock, any unrealized gain or loss on the date of sale will be recorded as a realized gain or loss in the Company's results of operations. Due to market fluctuations, a significant decline in the stock's fair market value (of 15% or more) could occur, and this decline could adversely impact the Company's consolidated financial statements. As of July 3, 1999, the quoted market value of the Company's Komag stock holdings, without regard to discounts due to sales restrictions, was \$33.7 million.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements and Financial Statement Schedule

* The unrealized losses on these contracts are deferred and will be recognized in the results of operations in the period in which the hedged transactions are consummated, at which time the loss is offset by the reduced U.S. Dollar value of the local currency operating expense.

Western Digital Corporation:

We have audited the consolidated financial statements of Western Digital Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index.

These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Digital Corporation and subsidiaries as of June 27, 1998 and July 3, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended July 3, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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Orange County, California

July 21, 1999, except as to Note 11,

KPMG LLP

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

which is as of September 29, 1999.

WESTERN DIGITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

ASSETS

	Years ended		
	June 28, 1997	June 27, 1998	July 3, 1999
Revenues, net (Note 7)	\$4,177,857	\$3,541,525	\$2,767,206
Costs and expenses:			
Cost of revenues	3,527,574	3,441,475	2,770,054
Research and development (Note 8)	150,157	203,733	216,986
Selling, general and administrative	198,530	192,142	195,958
Restructuring charges (Note 8)	—	—	61,000
Total costs and expenses	3,876,261	3,837,350	3,243,998
Operating income (loss)	301,596	(295,825)	(476,792)
Net interest income (expense) (Note 2)	13,223	3,817	(15,898)
Income (loss) before income taxes	314,819	(292,008)	(492,690)
Provision (benefit) for income taxes (Note 5)	47,223	(1,791)	—
Net income (loss)	\$ 267,596	\$ (290,217)	\$ (492,690)
Earnings (loss) per common share (Note 9):			
Basic	\$ 3.07	\$ (3.32)	\$ (5.51)
Diluted	\$ 2.86	\$ (3.32)	\$ (5.51)
Common shares used in computing per share amounts (Note 9):			
Basic	87,261	87,525	89,478
Diluted	93,522	87,525	89,478

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DEFICIENCY)

(in thousands)

	June 27, 1998	July 3, 1999
Current assets:		
Cash and cash equivalents	\$ 459,830	\$ 226,147
Accounts receivable, less allowance for doubtful accounts of \$15,926 in 1998 and \$18,537 in 1999.	369,013	273,435
Inventories (Note 2)	186,516	144,093
Prepaid expenses and other assets	36,763	44,672
Total current assets	1,052,122	688,347
Property and equipment at cost, net (Note 2)	346,987	237,939
Intangible and other assets, net (Note 8)	43,579	96,116

Total assets	\$1,442,688	\$1,022,402
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	\$ 330,130	\$ 335,907
Accrued compensation	23,697	31,136
Accrued warranty	47,135	78,187
Accrued expenses	187,617	171,388
Current portion of long-term debt (Note 3)	-	10,000
Total current liabilities	588,579	626,618
Long-term debt (Note 3)	519,188	534,144
Deferred income taxes (Note 5)	17,163	15,430
Commitments and contingent liabilities (Note 4)		
Subsequent events (Notes 3 and 11)		
Shareholders' equity (deficiency) (Note 6):		
Preferred stock, \$.01 par value; Authorized - 5,000 shares;		
Outstanding - None		
Common stock, \$.01 par value; Authorized - 225,000 shares;		
Outstanding - 101,332 shares in 1998 and 101,908 shares in 1999	1,013	1,019
Additional paid-in capital	326,244	335,197
Retained earnings (accumulated deficit)	197,849	(294,841)
Accumulated other comprehensive loss (Note 8)	-	(2,123)
Treasury stock-common shares at cost; 13,039 shares in 1998 and 11,297 shares in 1999.	(207,348)	(193,042)
Total shareholders' equity (deficiency)	317,758	(153,790)
Total liabilities and shareholders' equity (deficiency)	\$1,442,688	\$1,022,402

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Common Stock		Treasury Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	
Balance at June 29, 1996	101,332	\$1,013	(14,190)	\$(121,417)	\$353,826
Common stock repurchase program	-	-	(5,172)	(135,506)	(9,068)
Exercise of stock options	-	-	2,790	22,087	(8,350)
ESPP shares issued	-	-	1,136	9,090	37
Income tax benefit from stock options exercised	-	-	-	-	20,209
Net income	-	-	-	-	-
Balance at June 28, 1997	101,332	1,013	(15,436)	(225,746)	356,654
Common stock repurchase program	-	-	-	-	(35,828)
ESPP shares issued	-	-	1,231	9,506	3,178
Exercise of stock options	-	-	1,166	8,892	(99)
Income tax benefit from stock options exercised	-	-	-	-	2,339
Net loss	-	-	-	-	-
Balance at June 27, 1998	101,332	1,013	(13,039)	(207,348)	326,244
ESPP shares issued	-	-	1,002	8,222	1,632
Exercise of stock options and other	-	-	740	6,084	(590)
Shares issued in connection with Crag Acquisition	576	6	-	-	7,911
Net loss	-	-	-	-	-
Unrealized loss on investment securities	-	-	-	-	-
Balance at July 3, 1999	101,908	\$1,019	(11,297)	\$(193,042)	\$335,197

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Retained Earnings (Accumulated Deficit)	Accumulated Compre- hensive Loss	Total Shareholders' Equity (Deficiency)	Total Compre- hensive Income (Loss)
Balance at June 29, 1996	\$ 220,470	\$ -	\$ 453,892	
Common stock repurchase program	-	-	(144,574)	
Exercise of stock options	-	-	13,737	
ESPP shares issued	-	-	9,127	
Income tax benefit from stock options exercised	-	-	20,209	
Net income	267,596	-	267,596	\$ 267,596

Balance at June 28, 1997	488,066	—	619,987	
Common stock repurchase program	—	—	(35,828)	
ESPP shares issued	—	—	12,684	
Exercise of stock options	—	—	8,793	
Income tax benefit from stock options exercised	—	—	2,339	
Net loss	(290,217)	—	(290,217)	\$ (290,217)
Balance at June 27, 1998	197,849	—	317,758	
ESPP shares issued	—	—	9,854	
Exercise of stock options and other	—	—	5,494	
Shares issued in connection with Crag Acquisition	—	—	7,917	
Net loss	(492,690)	—	(492,690)	(492,690)
Unrealized loss on investment securities	—	(2,123)	(2,123)	(2,123)
Balance at July 3, 1999	\$ (294,841)	\$ (2,123)	\$ (153,790)	\$ (494,813)

See notes to consolidated financial statements.

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WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Western Digital Corporation ("Western Digital" or the "Company") has prepared its consolidated financial statements in accordance with generally accepted accounting principles and has adopted accounting policies and practices which are generally accepted in the industry in which it operates. Following are the Company's significant accounting policies:

Fiscal Year

The Company's fiscal year end is a 52 or 53-week year ending on the Saturday nearest June 30. Accordingly, the 1997, 1998 and 1999 fiscal years ended on June 27, June 28, and July 3, respectively, and included 52 weeks for fiscal years 1997 and 1998, and 53 weeks in fiscal year 1999. All general references to years relate to fiscal years unless otherwise noted.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounts of foreign subsidiaries have been remeasured using the U.S. dollar as the functional currency. As such, foreign exchange gains or losses resulting from remeasurement of these accounts are reflected in the results of operations. Monetary and nonmonetary asset and liability accounts have been remeasured using the exchange rate in effect at each year end and using historical rates, respectively. Income statement accounts have been remeasured using average monthly exchange rates.

Cash Equivalents

The Company's cash equivalents represent highly liquid investments, primarily money market funds and commercial paper, with original maturities of three months or less.

Concentration of Credit Risk

The Company designs, develops, manufactures and markets hard

drives to personal computer manufacturers, resellers and retailers throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral. The Company maintains reserves for potential credit losses, and such losses have historically been within management's expectations. The Company also has cash equivalent policies that limit the amount of credit exposure to any one financial institution or investment instrument, and require that investments be made only with financial institutions or in investment instruments evaluated as highly credit-worthy.

Inventory Valuation

Inventories are valued at the lower of cost or net realizable value. Cost is on a first-in, first-out basis for raw materials and is computed on a currently adjusted standard basis (which approximates first-in, first-out) for work in process and finished goods.

The Company maintains a base stock of two to three weeks of current, finished goods inventory for certain key original equipment manufacturer ("OEM") customers in facilities located adjacent to their operations. Inventory at these locations usually includes minor product customizations (such as labeling) for the related OEM. If subsequent to its initial order the OEM changes its requirements, inventory held at these facilities can be sold to other OEM's or distributors as is or with minor modifications (such as a change in labeling) at little or no additional cost.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Depreciation and Amortization

The cost of property and equipment is depreciated over the estimated useful lives of the respective assets. Depreciation is computed on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms. Goodwill and purchased technology, which are included in other assets, are capitalized at cost and amortized on a straight-line basis over their estimated lives of five to fifteen years. Other intangible assets are amortized over their expected useful lives or the lives of the related products, including intangibles acquired from IBM pursuant to a joint technology development agreement (See Note 8 of Notes to Consolidated Financial Statements).

The Company reviews identifiable intangibles, goodwill and other long-lived assets for impairment whenever events or circumstances indicate the carrying amounts may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized.

Revenue Recognition

The Company recognizes revenue at time of shipment net of pricing adjustments and estimated sales returns. In accordance with standard industry practice, the Company's agreements with certain resellers provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving

items. These agreements may be terminated upon written notice by either party. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory. The Company recognizes revenue at the time of shipment on sales to resellers who have inventory repurchase agreements due to the Company's ability to reasonably estimate future returns as well as the historically low levels of actual repurchases. Revenue recognized on sales to resellers with inventory repurchase agreements was \$1,179, \$1,083 and \$841 million for fiscal years 1997, 1998 and 1999, respectively. Repurchases of inventory under such agreements were not material in 1997, 1998 and 1999.

The Company also records an accrual for estimated warranty costs when revenue is recognized. Warranty periods range from 3 to 5 years and cover cost of repair or replacement of the hard drive. The Company has comprehensive processes with which to estimate accruals for warranty, which include specific detail on hard drives in the field by product type, historical field return rates and costs to repair. Although the Company believes that it has the continued ability to reasonably estimate warranty reserves, unforeseeable changes in factors used to estimate the accrual for warranty could occur. These unforeseeable changes could cause a material change in the Company's warranty accrual estimate. Such a change would be recorded in the period in which the change was identified.

Advertising Expense

Advertising costs are expensed as incurred. Selling, general and administrative expenses of the Company include advertising costs of \$16.3 million, \$17.4 million and \$14.3 million in 1997, 1998 and 1999, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). This method generally provides that deferred tax assets and liabilities be recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss ("NOL") carryforwards. The Company records a valuation allowance for certain temporary differences for which it is more likely than not that it will not receive future tax benefits. The

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the consolidated financial statements in the period of enactment.

Two-For-One Stock Split

On May 2, 1997, the Company declared a two-for-one stock split, effected in the form of a stock dividend on June 3, 1997 to shareholders of record on May 20, 1997. All share and per share amounts included in the consolidated financial statements reflect retroactive recognition of the two-for-one stock split.

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). This statement replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings (loss) per share amounts for all periods have been presented and restated to conform to the SFAS 128 requirements (See Note 9 of Notes to Consolidated Financial Statements).

Increase in Authorized Common Stock and Change in Par Value of Common Stock and Preferred Stock

On March 11, 1997, the Company's shareholders approved the amendment to the Company's Certificate of Incorporation to increase the Company's authorized common stock and to reduce the par value of the common stock and preferred stock from \$.10 to \$.01 per share. Par value information in the consolidated financial statements reflects retroactive recognition of the change in the par value.

Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes the financial accounting and reporting standards for stock-based compensation plans. The Company elected to continue accounting for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB Opinion No. 25"), as SFAS 123 permits, and to follow the pro forma net income, pro forma earnings per share, and stock-based compensation plan disclosure requirements set forth in SFAS 123. See Note 6 of Notes to Consolidated Financial Statements.

New Accounting Pronouncements

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

Other Comprehensive Loss

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting of comprehensive income and its components in annual and interim financial statements. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS 130. For 1999, the Company possessed one of the components of other comprehensive income as defined in SFAS 130. (See Note 8 of Notes to Consolidated Financial Statements for further discussion of the other comprehensive loss of \$2.1 million recorded in 1999.) Other than the \$2.1 million comprehensive loss discussed in Note 8, the Company does not have any other components of comprehensive income (loss) for the year ended July 3, 1999 or prior periods.

Segment Information

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption SFAS 131. In 1999, the Company operated in one industry segment, the hard drive industry, and in accordance with SFAS 131, only enterprise-wide disclosures have been provided. (See Note 7 of Notes to Consolidated Financial Statements.) During 1999, the Company acquired Connex, which is a separate operating segment as defined under SFAS 131. Connex is an early-stage business which did not generate revenue in 1999, and does not meet the disclosure requirements under SFAS 131. The Company will be reviewing its disclosure requirements under SFAS 131 as it relates to its July 8, 1999 reorganization (see Note 11 of Notes to Consolidated Financial Statements) and will make any applicable disclosures during 2000.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value for all periods presented because of the short-term maturity of these financial instruments. The fair value of the Company's convertible debentures is estimated by reference to quoted information from market sources. At July 3, 1999, the market value of the Company's convertible debentures was approximately \$225.4 million, compared to the related carrying value of \$494.1 million. The Company owns approximately 10.8 million shares of Komag stock, which at the time of acquisition, had a fair market value of \$34.9 million. The stock is restricted as to the number of shares which can be sold in a given time period. The Company reviews, on a quarterly basis, the fair market value of the unrestricted stock and records an unrealized gain or loss resulting from the difference between the fair market value of the unrestricted stock at the time of acquisition and the fair market value of the unrestricted stock on the measurement date. As of July 3, 1999, a \$2.1 million unrealized loss has been recorded and is shown as a component of stockholders' deficit. (See Note 8 of Notes to Consolidated Financial Statements for further discussion on the Company's valuation of Komag stock and related restrictions.) The carrying amounts of all other financial instruments in the consolidated balance sheet approximate fair values. As of July 3, 1999, the quoted market value of the Company's Komag stock holdings, without regard to discounts due to sales restrictions, was \$33.7 million.

Investments

The Company's investments in marketable equity securities

are included in other assets, and have been classified as "available for sale" and are carried at fair value. The classification of a security is determined at the acquisition date and reviewed periodically. The unrealized gains or losses resulting from the difference in

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the fair value and the cost of marketable equity securities classified as available for sale are shown as a component of stockholders' equity. Securities which are not classified as available for sale are carried at cost. The Company periodically reviews its investments for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value. The amount of any write-down would be included in the results of operations as a realized loss. Realized gains and losses resulting from the sale of securities are determined using the specific identification method.

Foreign Exchange Contracts

The Company enters into short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenditures denominated in foreign currencies. These contracts are not entered into for trading purposes, have maturity dates that do not exceed twelve months, and are accounted for as hedges. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transactions are consummated. Realized gains and losses are primarily recorded in cost of revenues in the accompanying consolidated statements of operations. Costs associated with entering into such contracts are typically amortized over the life of the instrument.

The Company had outstanding forward exchange contracts with commercial banks with nominal values of \$241.9 and \$66.4 million, at June 27, 1998 and July 3, 1999, respectively. The total unrealized gains and losses on outstanding forward exchange contracts and foreign currency transactions were not material for the years ended June 28, 1997 and June 27, 1998. For the year ended July 3, 1999, the total net loss on foreign currency transactions and forward exchange contracts was \$10.3 million. Of this amount, a realized loss of \$7.5 million was recorded due to the imposition of exchange controls by the Malaysian government. With the establishment of currency controls and the prohibition of purchases or sales of the Malaysian Ringgit by offshore companies, the Company has discontinued hedging its Malaysian Ringgit currency risk. Future hedging of this currency will depend on currency conditions in Malaysia.

In response to the Company's underlying foreign currency exposures, the Company may, from time to time, adjust its foreign currency hedging position by taking out additional contracts or by terminating or offsetting existing foreign currency forward exchange contracts. Gains or losses on terminated contracts and offsetting contracts are recognized in the results of operations in the periods in which the hedged transactions occur.

Use of Estimates

Company management has made estimates and assumptions relating to

the reporting of certain assets and liabilities in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Reclassifications

Certain prior years' amounts have been reclassified to conform to the current year presentation.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Supplemental Financial Statement Data (in thousands)

	Years ended		
	June 28, 1997	June 27, 1998	July 3, 1999
Cash flows from operating activities			
Net income (loss)	\$ 267,596	\$(290,217)	\$(492,690)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization	63,485	106,550	131,066
Interest accrued on convertible debentures	—	9,059	24,956
Non-cash portion of restructuring charges (Note 8)	—	—	41,236
Non-cash portion of in process research and development (Note 8)	—	—	7,471
Changes in assets and liabilities (Note 8):			
Accounts receivable	(136,079)	176,539	107,693
Inventories	(81,852)	37,958	22,069
Prepaid expenses and other assets	2,184	2,830	(10,101)
Accrued warranty	15,610	18,110	31,052
Accounts payable, accrued compensation and accrued expenses	124,073	(83,236)	(3,013)
Deferred income taxes	(1,570)	(16,267)	(1,733)
Other assets	712	(299)	2,447
Net cash provided by (used for) operating activities	254,159	(38,973)	(139,547)
Cash flows from investing activities			
Capital expenditures, net	(155,958)	(198,641)	(106,559)
Sales and maturities of short-term investments	36,598	—	—
Decrease (increase) in other assets	(7,587)	9,758	—
Net cash used for investing activities	(126,947)	(188,883)	(106,559)
Cash flows from financing activities			
Proceeds from ESPP shares issued	9,127	12,684	9,854
Exercise of stock options and other, including tax benefit	33,946	11,132	5,494
Debt issuance costs	—	(18,707)	(2,925)
Proceeds from issuance of bank debt (Note 3)	—	50,000	—
Proceeds from issuance of convertible debentures (Note 3)	—	460,129	—
Common stock repurchase program (Note 6)	(144,574)	(35,828)	—
Net cash (used for) provided by financing activities	(101,501)	479,410	12,423
Net increase (decrease) in cash and cash equivalents	25,711	251,554	(233,683)
Cash and cash equivalents at beginning of year	182,565	208,276	459,830
Cash and cash equivalents at end of year	\$ 208,276	\$ 459,830	\$ 226,147

Note 3. Long-Term Debt

Line of Credit

The Company has a secured revolving credit and term loan facility ("Senior Bank Facility"). The Senior Bank Facility provides the Company with up to \$125.0 million in a revolving credit line (depending on borrowing base calculation) and a \$50.0 million term loan, both of which expire in November 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR or a base rate plus a margin determined by the borrowing base, with option periods of one to three months. The Senior Bank Facility requires the

Company to maintain certain amounts of net equity, prohibits the payment of cash dividends on common stock and contains a number of other covenants. The Company was in compliance at July 3, 1999, with all terms of the Senior Bank Facility. As of the date hereof, the \$50.0 million term loan was funded, but there were no borrowings under the revolving credit line. The term loan requires quarterly payments of \$2.5 million beginning in September 1999 with the remaining balance due in November 2001. The costs of the product recall discussed in note 11 may result in the Company not being in compliance with certain financial covenants in the Senior Bank Facility in future periods. The availability of this facility will depend upon, among other things, the actual cost of the recall and the Company's ability to recover such costs from third parties.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Convertible Debentures

On February 18, 1998, the Company received gross proceeds of \$460.1 million (before the Initial Purchasers' discount) from a private offering of 5.25% zero coupon convertible subordinated debentures due in 2018 (the "Debentures"). The principal amount at maturity of the Debentures is \$1.3 billion. The Debentures are subordinated to all senior debt; are convertible into shares of the Company's common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. As of July 3, 1999, the carrying value of the Debenture was \$494.1 million. Included in other assets is the amount of unamortized debenture issuance costs. The Debenture issuance costs totaled approximately \$14.5 million and are being amortized over 10 years. As of July 3, 1999, the balance of unamortized Debenture issuance costs was approximately \$12.6 million.

Note 4. Commitments and Contingent Liabilities

Operating Leases

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2006, and also owns a facility in Tuas, Singapore (currently held for sale) which is subject to a ground lease expiring in 2026. Rental expense under these leases, including month-to-month rentals, was \$32.2, \$39.3, and \$36.2 million in 1997, 1998, and 1999, respectively. Leases for which the Company is contingently liable, totaling \$69.4 million, are not included in the table below. See Note 8 of Notes to Consolidated Financial Statements for further discussion.

Future minimum rental payments under non-cancelable operating leases as of July 3, 1999 are as follows (in thousands):

	1997	1998	1999
Net Interest Income			
Interest income	\$ 13,223	\$ 15,952	\$ 16,906
Interest expense	-	12,135	32,804

Net interest income (expense)	\$13,223	\$ 3,817	\$ (15,898)
Cash paid for interest	\$ -	\$ 2,073	\$ 4,819
Inventories			
Finished goods		\$ 126,363	\$ 101,828
Work in process		28,287	26,307
Raw materials and component parts		31,866	15,958
		\$ 186,516	\$ 144,093
Property and Equipment			
Land and buildings		\$ 92,234	\$ 94,788
Machinery and equipment		415,469	383,095
Furniture and fixtures		14,060	13,407
Leasehold improvements		79,490	42,972
		601,253	534,262
Accumulated depreciation and amortization		(254,266)	(296,323)
Net property and equipment		\$ 346,987	\$ 237,939
Supplemental disclosure of non-cash investing activities			
Proceeds from sale of Santa Clara disk media operations	\$ -	\$ -	\$ 77,100
Common stock issued and liabilities assumed in connection with acquisition of Connex	\$ -	\$ -	\$ (10,000)

Legal Proceedings

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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financial position, results of operations and liquidity. In addition, the costs of defending a retrial of the case may be material, regardless of the outcome.

On February 26, 1999, the Lemelson Foundation ("Lemelson") sued the Company and 87 other companies in the U.S. District Court for the District of Arizona.

The complaint alleges infringement of numerous patents held by Mr. Jerome H. Lemelson relating to, among other matters, "machine vision", "computer image analysis", and "automatic identification". The Company has reached preliminary agreement with Lemelson concerning a fully paid-up license of the patents, and Lemelson has filed a voluntary dismissal without prejudice of the complaint against the Company. Based upon the information presently known to management, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages

and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

In 1994 Papst Licensing ("Papst") brought suit against the Company in U.S. District Court for the Central District of California alleging infringement by the Company of five of its patents relating to disk drive motors that the Company purchases from motor vendors. Later that year Papst dismissed its case without prejudice, but it has notified the Company that it intends to reinstate the suit if the Company does not agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations and liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

On July 2, 1999, Magnetic Media Development, LLC ("Magnetic Media") brought suit against the Company in the United States District Court for the Northern District of California. The suit alleges infringement by the Company of four patents allegedly owned by Magnetic Media. While the Company has not yet had an opportunity to fully study the complaint, it believes that the patents cited in the complaint are those previously cited to the Company by Mr. Virgle Hedgcoth. In a letter dated July 16, 1996, Mr. Hedgcoth gave notice of his assertion that the Company's products infringe several of his patents. Each of the patents which Hedgcoth cited relates to magnetic media. In the letter, Hedgcoth offered the Company a license under all his patents, without specifying any amount of compensation. The Company has investigated these assertions and believes it is likely that, with respect to magnetic disks that it purchases from others and incorporates into the Company's products, it may have the right to have the vendors of such magnetic disks undertake the defense and indemnify the Company with respect to such purchased disks. The Company does not believe that the outcome of this matter will have a material adverse effect on its financial position, results of operations or liquidity. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, the Company may be required to pay damages and other expenses, which may have a material adverse effect on the Company's financial position, results of operations or liquidity. In addition, the costs of defending such litigation may be material, regardless of the outcome.

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

inquiry regarding possible intellectual property matters including alleged patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that a license will be offered or that the terms of any license offered will be acceptable to the Company. Several such matters are currently pending. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial position, results of operations or liquidity of the Company.

From time to time the Company receives claims and is a party to suits and other judicial and administrative proceedings incidental to its business. Although occasional adverse decisions (or settlements) may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

Note 5. Income Taxes

The domestic and international components of income (loss) before income taxes are as follows (in thousands):

2000	\$19,077
2001	10,642
2002	4,867
2003	2,114
2004	1,880
Thereafter	7,754
Total future minimum rental payments	<u>\$46,334</u>

The components of the provision (benefit) for income taxes are as follows (in thousands):

	<u>1997</u>	<u>1998</u>	<u>1999</u>
United States	\$105,884	\$(348,397)	\$(399,006)
International	208,935	56,389	(93,684)
Income (loss) before income taxes	<u>\$314,819</u>	<u>\$(292,008)</u>	<u>\$(492,690)</u>

The tax benefits associated with the exercise of non-qualified stock options, the disqualifying disposition of stock acquired with incentive stock options, and the disqualifying disposition of stock acquired under the employee stock purchase plan reduce taxes currently payable as shown above by \$20.2 and \$2.3 million for 1997 and 1998, respectively. Such benefits are credited to additional paid-in capital. No amounts were recorded to additional paid-in capital in 1999 because no tax benefits related to these plans were realized.

The total cash paid for income taxes was \$19.2 million, \$16.9 million and \$5.5 million in 1997, 1998 and 1999, respectively.

June 27, 1998, and July 3, 1999 are as follows (in thousands):

	1997	1998	1999
Current			
United States	\$29,153	\$(6,195)	\$(3,519)
International	9,964	4,905	3,352
State	8,106	(501)	167
	<u>47,223</u>	<u>(1,791)</u>	<u>-</u>
Deferred, net	-	-	-
Provision (benefit) for income taxes	<u>\$47,223</u>	<u>\$(1,791)</u>	<u>\$ -</u>

Reserves and accrued expenses not currently deductible include the following:

	1998	1999
Deferred tax assets:		
NOL carryforward	\$ 83,649	\$ 251,009
Business credit carryforward	29,323	34,242
Reserves and accrued expenses not currently deductible	122,454	120,117
All other	18,920	16,259
	<u>254,346</u>	<u>421,627</u>
Valuation allowance	(254,297)	(421,627)
Total deferred tax assets	<u>\$ 49</u>	<u>\$ -</u>
Deferred tax liabilities:		
Unremitted income of foreign subsidiaries	\$ 17,163	\$ 15,430
All other	3,148	3,640
Total deferred tax liabilities	<u>\$ 20,311</u>	<u>\$ 19,070</u>

SFAS 109 requires deferred taxes to be determined for each tax paying component of an enterprise within each tax jurisdiction. The deferred tax assets indicated above are attributable primarily to a tax jurisdiction where a history of earnings has not been established. The taxable earnings in this tax jurisdiction is also subject to volatility. Therefore, the Company believes a valuation allowance is needed to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Reconciliation of the United States Federal statutory rate to the Company's effective tax rate is as follows:

	1998	1999
Sales related reserves and adjustments	\$ 51,900	\$ 50,889
Accrued compensation and benefits	20,100	17,897
Inventory reserves and adjustments	7,753	4,498
Other accrued liabilities	42,701	46,833
Total deferred tax assets	<u>\$122,454</u>	<u>\$120,117</u>

Certain income of selected subsidiaries is taxed at substantially lower income tax rates as compared to local statutory rates. The lower rates reduced income taxes and increased net earnings or reduced the net loss by \$58.5 million (\$.63 per share, diluted), \$17.1 million (\$.20 per share, diluted) and by \$25.2 million (\$.28 per share, diluted) in 1997, 1998 and 1999, respectively. These lower rates are in effect through fiscal year 2004.

At July 3, 1999, the Company had federal net operating loss carryforwards of \$658.5 million and federal and state tax credits of \$34.2 million. The loss carryforwards expire in fiscal years 2008 through 2019 and the credit carryforwards expire in fiscal years 2000 through 2012.

Net undistributed earnings from international subsidiaries at July 3, 1999, on which no U.S. tax has been provided, amounted to \$434.7 million. The net undistributed earnings are intended to finance local operating requirements. Accordingly, an additional United States tax provision has not been made on these earnings.

Note 6. Shareholders' Equity

The following table summarizes all shares of common stock reserved for issuance at July 3, 1999 (in thousands):

	1997	1998	1999
U.S. Federal statutory rate	35.0%	(35.0)%	(35.0)%
State income taxes, net	1.7	(0.2)	0.0
Tax rate differential on international income	(12.7)	(15.5)	.9
Effect of valuation allowance	(10.0)	46.5	34.1
Other	1.0	3.6	0.0
Effective tax rate	15.0%	(0.6)%	0.0%

Stock Option Plans

Western Digital's Employee Stock Option Plan ("Employee Plan") is administered by the Compensation Committee of the Board of Directors, which determines the vesting provisions, the form of payment for the shares and all other terms of the options. Terms of the Employee Plan require that the exercise price of options be not less than the fair market value of the common stock on the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. In 1999, the Employee Plan was amended to authorize the issuance of an additional 10.0 million shares of common stock upon exercise of stock options granted under the plan. As of July 3, 1999, 6,674,895 options were exercisable and 7,263,194 options were available for grant. Participants in the Employee Plan may be permitted to utilize stock purchased previously as consideration to exercise options or to exercise on a cashless basis, pursuant to the terms of the Employee Plan.

The Company has a Stock Option Plan for Non-Employee Directors ("Director Plan") and has reserved 1.6 million shares for issuance thereunder. The Director Plan provides for initial option grants to new directors of 30,000 shares per director and additional grants of 7,500 options per director each year upon their reelection as a director at the annual shareholders' meeting. Terms of the Director Plan require that options have a ten-year term and that the exercise price of options be not less than the fair market value at the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. As of July 3, 1999, 201,566 options were exercisable and 698,464 options were available for grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes activity under the Employee and Director Plans combined (in thousands, except per share amounts):

	<u>Number of Shares</u>
Issuable in connection with:	
Convertible debentures	19,374
Exercise of stock options, including options available for grant	25,718
Employee stock purchase plan	1,371
	<hr/>
	46,463
	<hr/>

The following tables summarize information about options outstanding and exercisable under the Employee and Director Plans combined at July 3, 1999 (in thousand, except per share amounts):

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Options outstanding at June 29, 1996	9,342	\$ 6.90
Granted	3,630	17.26
Exercised, net of value of redeemed shares	(2,790)	5.11
Canceled or expired	(596)	9.80
	<hr/>	<hr/>
Options outstanding at June 28, 1997	9,586	11.20
Granted	4,433	27.17
Exercised, net of value of redeemed shares	(1,166)	7.54
Canceled or expired	(502)	20.00
	<hr/>	<hr/>
Options outstanding at June 27, 1998	12,351	16.92
Granted	9,119	11.10
Exercised, net of value of redeemed shares	(710)	7.30
Canceled or expired	(3,004)	23.63
	<hr/>	<hr/>
Options outstanding at July 3, 1999	17,756	\$13.19
	<hr/>	<hr/>

Stock Purchase Rights

In 1989, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carries one Right to Purchase Series A Junior Participating Preferred Stock (the "Right"). The

Right enables the holder, under certain circumstances, to purchase common stock of Western Digital or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding common stock. On September 10, 1998 the Company's Board of Directors approved the adoption of a new Rights plan to replace the previous plan, which expired in September of 1998. The Rights under the new plan are similar to the rights under the 1989 plan except they are redeemable by the Company at \$.01 per Right and expire in 2008.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee Stock Purchase Plan

During 1994, the Company implemented an employee stock purchase plan ("ESPP") in accordance with Section 423 of

the Internal Revenue Code whereby eligible employees may authorize payroll deductions of up to 10% of their salary to purchase shares of the Company's common stock at 85% of the fair market value of common stock on the date of grant or the exercise date, whichever is less. Approximately 7.0 million shares of common stock have been reserved for issuance under this plan. Approximately 1,136,000, 1,231,000 and 1,002,000 shares were issued under this plan during 1997, 1998 and 1999, respectively.

Common Stock Repurchase Program

In February 1995, the Company established an open market stock repurchase program. Under this program, the Company has spent \$323.4 million in connection with the repurchase of 22.2 million shares of its common stock at an average price of \$14.55 per share. The \$323.4 million includes the acquisition price of Western Digital common stock and amounts totaling \$35.8 million paid in 1998 to settle certain put option arrangements entered into in connection with the open market stock repurchase program. There was no stock repurchase program activity during 1999.

Pro Forma Information

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123. This information is required to be determined as if the Company had accounted for its stock options (including shares issued under the Stock Option Plans and the ESPP, collectively called "options") granted subsequent to July 1, 1995, under the fair value method of that statement.

The fair value of options granted in 1997, 1998 and 1999 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 1.44 - \$ 6.94	2,505	7.19	\$ 5.84	1,189	\$ 5.10
7.00 - 8.31	1,907	7.51	7.72	995	7.72
8.50 - 10.25	2,344	7.26	9.25	1,346	8.83
10.38 - 11.88	2,866	7.77	11.71	1,651	11.77
12.25 - 12.25	682	9.09	12.25	-	-
12.50 - 12.88	2,666	9.34	12.87	30	12.69
13.06 - 18.63	2,827	8.73	16.53	751	17.54
18.88 - 34.19	1,826	8.00	30.28	847	30.49
34.50 - 48.25	128	7.88	37.56	65	37.39
48.50 - 48.50	5	8.23	48.50	2	48.50
Total	17,756	8.05	\$13.19	6,876	\$12.65

The following is a summary of the per share weighted average fair value of stock options granted in the years listed below:

	Stock Option Plans			ESPP Plan		
	1997	1998	1999	1997	1998	1999
Option life (in years)	4.0	4.5	5.0	2.0	2.0	2.0
Risk-free interest rate	6.0%	5.5%	5.75%	6.0%	5.5%	5.75%
Stock price volatility	.58	.76	.82	.58	.76	.82
Dividend yield	-	-	-	-	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company applies APB Opinion No. 25 in accounting for its stock option and ESPP plans and, accordingly, no compensation expense has been recognized for the options in the consolidated financial statements. Had the Company determined compensation expense based on the fair value at the grant date for its options under SFAS 123, the Company's net income (loss) and net earnings (loss) per share would have been reduced to the amounts indicated below:

	1997	1998	1999
Options granted under the Stock Option Plans	\$9.10	\$17.10	\$7.74
Shares granted under the ESPP Plan	\$6.75	\$ 7.39	\$9.92

Pro forma net income (loss) and net earnings (loss) per share reflects only options granted in 1996, 1997, 1998 and 1999. Therefore, the full impact of calculating compensation expense for options under SFAS 123 is not reflected in the pro forma net income (loss) amounts presented above because compensation expense is reflected over the options' vesting period and compensation expense for options granted before 1996 is not considered.

Note 7. Business Segment and International Operations

Western Digital currently operates in one operating segment – the design, development, manufacture and marketing of hard drives for the computer marketplace. During 1997, sales to IBM accounted for 13% of the Company's revenues. During 1998 and 1999, sales to Compaq accounted for 14% and 21% of the Company's revenues, respectively.

The Company's operations outside the United States include manufacturing facilities in Singapore and Malaysia as well as sales offices throughout the world.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes operations by entities located within the indicated geographic areas for the past three years. United States revenues to unaffiliated customers include export sales to various countries in Europe and Asia of \$763.5, \$606.7, and \$482.5 million in 1997, 1998, and 1999, respectively.

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of \$62.8, \$77.6, and \$82.7 million in 1997, 1998, and 1999, respectively, have been excluded in determining operating income (loss) by geographic region.

	Year Ended		
	June 28, 1997	June 27, 1998	July 3, 1999
Pro forma net income (loss) (in thousands)	\$254,831	\$(324,178)	\$(538,637)
Pro forma net earnings (loss) per share:			
Basic	\$ 2.92	\$(3.70)	\$(6.02)
Diluted	\$ 2.72	\$(3.70)	\$(6.02)

IBM License Agreement

In June of 1998, the Company entered into a broad based technology licensing and component supply agreement with IBM (the "Agreement") involving the design and manufacture of desktop hard disk drives using IBM's giant magnetoresistive heads and other components. The terms of the Agreement included a \$20.0 million non-refundable initial payment in June 1998, which was fully expensed in 1998 as in-process research and development. Additional payments of \$40.0 million are dependent upon the achievement of certain product development milestones. These additional payments are being capitalized and amortized to cost of sales as the related product is sold (generally within one year). During 1999, \$30.0 million of these additional payments were made, \$6.4 million of which was unamortized as of July 3, 1999 and is included in prepaid expenses. Another \$10.0 million is expected to be paid in 2000. The Agreement also calls for the Company to make supplemental per unit payments as the related product is sold. These amounts are recorded to cost of sales as the product is sold. The Agreement also includes a supply arrangement for the purchase of GMR heads at negotiated market prices.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisition of Connex

On February 1, 1999, the Company acquired Connex, a San Jose-based startup company formed to develop storage solutions for the Windows NT and Unix server environments, at a cost of approximately \$12.0 million. The purchase price included 575,662 shares of Western Digital common stock valued at \$7.9 million, forgiveness of amounts advanced to Connex prior to the acquisition totaling \$2.0 million and the assumption of certain liabilities of approximately \$2.1 million. Due to the small size of the Connex acquisition, the \$12.0 million purchase price was determined based on an arms-length negotiation. The acquisition was accounted for as a purchase.

At the time of the acquisition, Connex was a development stage operation with no commercial products yet available for sale. Connex had, at the time of acquisition, several in-process research and development projects which were approximately 40% complete. The major projects acquired include: industry standard storage systems and storage management software solutions for both Windows NT and UNIX server environments. The Company's primary purpose for the acquisition was to acquire these in-process projects and complete the development efforts as the Company believed they had economic value but had not yet reached technological feasibility and had no alternative future uses. Therefore, the Company allocated substantially all of the purchase price as a one-time charge for in-process research and development of \$12.0 million to the Company's results of operations in 1999. Approximately \$0.4 million of assets were acquired in the acquisition. Approximately \$8 million in development and administrative expenses (approximately \$5 million for network attached storage systems and \$3 million for network storage management software) were incurred during 1999 after the acquisition. The Company is continuing development efforts and expects to ship the first new products developed by Connex in January 2000. The primary risks and uncertainties associated with timely completion of the projects lies in the Company's ability to attract and retain qualified software engineers in the current competitive environment. Should the projects not be completed on a timely basis, the Company's first-to-market advantages would be

reduced (e.g. lower margins), or an alternative technology might be developed by a competitor which could severely impact the marketability of the Company's planned products. Should the projects prove to be unsuccessful, the impact on the 2000 results of operations will primarily consist of the engineering and start up efforts incurred to complete the projects for which there would be no future value, plus the costs of any new efforts on replacement projects and/or costs to unwind the infrastructure if a decision was made not to pursue new efforts.

Restructuring Programs

In January 1999, the Company initiated a restructuring program which resulted in the combination of its Personal Storage Division and Enterprise Storage Group into a single hard drive operating unit. The new Drive Products Division ("DPD") has combined design, manufacturing, materials, business and product marketing resources to address both the desktop and enterprise markets. In connection with the combination of the divisions, the Company's Tuas, Singapore facility was closed and production of Enterprise drives was moved to the Company's nearby manufacturing facility in Chai-Chee, Singapore. This restructuring program, which was substantially completed by the end of the third quarter of 1999, resulted in a reduction of worldwide employee headcount of 934 employees (compared to the original plan of 900), approximately 250 of which were direct and indirect labor and the rest were management, professional and administrative personnel. A \$41.0 million restructuring charge was recorded in the third quarter of 1999, the components of which are summarized below (in millions):

	United States	Europe	Asia	Eliminations	Total
			(in millions)		
Year ended June 28, 1997					
Sales to unaffiliated customers	\$2,980	\$1,107	\$ 91	\$ -	\$4,178
Transfers between geographic areas	1,340	167	3,646	(5,153)	-
Revenues, net	\$4,320	\$1,274	\$3,737	\$(5,153)	\$4,178
Operating income	\$ 158	\$ 15	\$ 200	\$ (8)	\$ 365
Identifiable assets	\$ 733	\$ 186	\$ 404	\$ (16)	\$1,307
Year ended June 27, 1998					
Sales to unaffiliated customers	\$2,630	\$ 886	\$ 26	\$ -	\$3,542
Transfers between geographic areas	998	166	3,324	(4,488)	-
Revenues, net	\$3,628	\$1,052	\$3,350	\$(4,488)	\$3,542
Operating income (loss)	\$(271)	\$ 7	\$ 66	\$ (20)	\$(218)
Identifiable assets	\$ 907	\$ 116	\$ 455	\$ (35)	\$1,443
Year ended July 3, 1999					
Sales to unaffiliated customers	\$2,001	\$ 751	\$ 15	\$ -	\$2,767
Transfers between geographic areas	746	1	2,607	(3,354)	-
Revenues, net	\$2,747	\$ 752	\$2,622	\$(3,354)	\$2,767
Operating income (loss)	\$(295)	\$ 7	\$(114)	\$ 8	\$(394)
Identifiable assets	\$ 550	\$ 97	\$ 390	\$ (15)	\$1,022

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The write-down of building and equipment includes the reduction of the Tuas building to its estimated fair market value of \$7.8 million, which was based on a valuation done by an independent party. As of July 3, 1999, the Tuas building is held for sale. The Company expects the building to sell within

6 months to 1 year. Of the severance and related charge of \$11.2 million, approximately \$9.3 million was paid in 1999, leaving a liability of approximately \$1.9 expected to be paid in the first and second quarters of fiscal 2000. The write-off of duplicate warranty repair and engineering supplies, including base replacement stock for warranty repairs and engineering materials, was necessary due to the reduced requirements of a single combined repair facility. Tuas facility renovation and related costs consist of costs incurred to ready the facility for sale. The miscellaneous category includes various other incremental costs incurred during the quarter for closure of the facility and wind-down of its operations. All other non-severance related costs were substantially paid by July 3, 1999.

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

Write-down of building and equipment to fair value	\$22.7
Severance and related costs	11.2
Write-off of duplicate warranty repair and engineering supplies	4.1
Tuas facility renovation and related costs	1.3
Miscellaneous	1.7
Total	<u>\$41.0</u>

In April 1999, the Company completed the sale of its Santa Clara disk media operations to Komag. The components of the sale are summarized below (in millions):

Original restructuring accrual	\$ 41.0
Non-cash charges.	(26.0)
Cash utilized	(13.1)
Changes in original estimates:	
Reduced building and equipment impairment	(3.0)
Increased severance and outplacement costs	1.0
Increased duplicate warranty repair and engineering supplies	2.0
Balance at July 3, 1999	<u>\$ 1.9</u>

The Komag common stock received as consideration includes restrictions upon when the stock may be sold. The restrictions will be lifted over a three and one-half year period. As of July 3, 1999, approximately 30% of these shares are not restricted. As shares become capable of being sold within 12 months, they are marked-to-market using published closing prices of Komag stock as of the end of the reporting period. Subsequent to the transaction, the market value of Komag's common stock declined. As the Company has identified the shares as "available for sale" under the provisions of SFAS No. 115, "Investments in Certain Debt and Equity Securities", the unrestricted shares have been marked to market value at July 3, 1999, and accordingly, the unrealized loss of \$2.1 million is recorded as a component of other comprehensive loss in the

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accompanying balance sheet and statement of shareholders' deficit. All of the Komag stock is included in other assets.

The Company also received, as consideration, a \$30.1 million unsecured note (the "Note"), which is included in other assets. The Note matures in April 2002 and has an annual interest rate of 4.9%, compounded quarterly. The outstanding

principal balance on this Note, plus accrued interest, is due and payable in full upon maturity. The Note contains a principle and accrued interest reduction provision which is based on the increase, if any, in performance of Komag's stock price subsequent to the date of the sale.

In conjunction with the sale of Company assets, Komag assumed certain liabilities, mainly leases related to production equipment and facilities. The Company is contingently liable for these leases. If Komag were unable to meet its payment obligations on the remaining leases, totaling approximately \$69.4 million as of July 3, 1999, the Company would be ultimately liable to make the payments.

The transaction also included a three-year volume purchase agreement under which the Company must purchase a significant percentage of its media requirements from Komag. The agreement does not require the Company to purchase a fixed minimum amount of media from Komag. The Company also entered into a License Agreement and Joint Development Agreement. The License Agreement grants Komag a fully paid-up license to utilize certain of the Company's technology in the development of future media products for the Company. The Joint Development Agreement provides the basis for determining the ownership of any media manufacturing related technology developed by Komag and/or the Company in the future. There is no additional consideration related to the sale inherent in these other agreements. Therefore, no portion of the sales proceeds was allocated to them.

The April 1999 sale of the media business resulted in a reduction of worldwide employee headcount of 1,106 employees (compared to the original plan of 1,100), approximately 650 of which were direct labor and the rest were technicians, management and other professionals. Of the severance and outplacement charge of \$3.0 million, approximately \$1.9 million was paid in 1999, leaving approximately \$1.1 million, as of July 3, 1999, which is to be paid in the first half of 2000.

The sale of Company's media assets to Komag and the related transition and restructuring program were substantially completed by the end of the fourth quarter. Following is a reconciliation of the original accrual, the cash and non-cash charges, and the remaining accrual (in millions):

Proceeds:		
Common stock of Komag, Inc.		\$34.9
Note receivable		30.1
Trade receivable for certain inventory sold		12.1
		<u>77.1</u>
Costs:		
Equipment sold		68.3
Inventory sold		18.1
Prepays and other related assets sold or written off		7.7
Severance and outplacement		3.0
		<u>97.1</u>
Restructuring/loss on sale		\$20.0

There have been no significant changes to the original restructuring charges or accrual estimates. The value of the equipment sold was determined based on the Company's book value.

Note 9. Earnings (Loss) Per Share

As discussed in Note 1, the Company adopted SFAS 128 effective December 27, 1997. The following table illustrates the computation of basic and diluted earnings (loss) per share under the provisions of SFAS 128.

Original restructuring charge	\$ 20.0
Non-cash charges	(17.0)
Cash utilized	(1.9)
	<hr/>
Balance at July 3, 1999	\$ 1.1
	<hr/>

Substantially all options were included in the computation of diluted earnings per share for 1997. In 1998 and 1999, 12.4 million and 17.8 million shares, respectively, relating to the possible exercise of outstanding stock options and 19.4 million shares issuable upon conversion of the convertible debentures were not included in the computation of diluted loss per share as their effect would have been anti-dilutive.

Note 10. Savings and Profit Sharing Plan

Effective July 1, 1991, the Company adopted a Savings and Profit Sharing Plan, the Western Digital Corporation Retirement Savings and Profit Sharing Plan ("the Plan"). The Plan includes an employee 401(k) plan. The Plan covers substantially all domestic employees, subject to certain eligibility requirements. In 1997, the Company authorized \$12.6 million (4.1% of defined pre-tax profits) to be allocated to participants under the profit sharing plan. In 1998 and 1999, no amounts were allocated by the Company to the profit sharing plan. The Company may also make annual contributions to the 401(k) plan at the discretion of the Board of Directors.

For 1997, 1998, and 1999 the Company made contributions to the 401(k) plan of \$2.7, \$2.9, \$3.3 million, respectively.

Note 11. Subsequent Events

Equity Facility

The Company has an equity draw-down facility ("Equity Facility") with a bank which allows the Company to issue up to \$150.0 million (in monthly increments of up to \$12.5 million) in common stock for cash at the market price of its stock less a 2.75% discount. As of July 3, 1999, the Equity Facility had not been used. During July through September 29, 1999, the Company issued 6.2 million shares of common stock under the Equity Facility for net proceeds of \$32.2 million.

Debenture Retirements

During the period from July 27, through September 17, 1999, the Company issued 6.1 million shares of common stock in exchange for Debentures with a carrying value of \$79.6 million, and an aggregate principal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount at maturity of \$207.1 million, which were retired in non-cash transactions. These exchanges were private, individually negotiated transactions with certain institutional investors. The Company expects to record an extraordinary gain of approximately \$45 million during the quarter ending October 2, 1999 for the difference between the carrying value of the Debentures and the market value of the common stock given by the Company at the time of the exchange.

Sale of Land

On August 9, 1999, the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for \$26 million (the approximate cost of the land). The Company has extended the current lease of its worldwide headquarters in Irvine, California, through December 2000, and has an option to extend the lease for an additional six month period.

Restructurings

On July 8, 1999, a further restructuring of operations and management responsibilities was executed. The structural change establishes a Worldwide Operations and Geographies structure and a Lines of Business/ Research and Development organization (LOB). Each of the Geographies will be responsible for their own operating results, field sales, customer and channel business management and channel marketing in its respective region. The restructure resulted in a reduction of worldwide employee headcount of approximately 40 employees, approximately 25 of which were direct and indirect labor and the rest were management, professional and administrative personnel. The Company expects to record a charge to operations of approximately \$2.0 million in the first quarter ending October 2, 1999, consisting primarily of severance accruals to be fully paid by the end of the second quarter ending December 31, 1999.

On August 13, 1999, the Company announced its intention to move substantially all of its production of desktop hard drives to Malaysia, while retaining in Singapore production of enterprise drives and expanding its role in design, development and manufacturing process engineering. The Company expects to finalize its plans relative to the restructuring by the end of its first quarter. The Company expects that the transfer of production of desktop hard drives to its Malaysia facility will result in a reduction of employee headcount in Singapore by the end of December 1999 of approximately 2,000 direct and 500 indirect workers and a charge to operations during the first half of 2000 of approximately \$30 million (unaudited) relating to the write-off of fixed assets to be disposed of, lease cancellations, and employee severance and other costs of vacating leased properties. The Company expects that the transfer to its Malaysia facility will result in an employee headcount increase in Malaysia of approximately 2,000 workers by the end of December 1999.

Product Recall (unaudited)

On September 27, 1999, the Company announced a recall of up to 400,000 of its 6.8GB per platter series of WD Caviar desktop hard drives which are in completed computer systems, because of a reliability problem resulting from a faulty power driver chip manufactured by a third-party supplier. Approximately 1.2 million units were manufactured with the faulty chip, but the Company believes the remaining drives are either in the Company's or its customers' inventory. Replacement of the chips will involve rework of the printed circuit board assembly. The Company expects that it will be able to resume production of the hard drives with new chips by approximately October 11, 1999. The Company has not yet quantified the total impact of the recall, rework, and manufacturing stoppage on its financial position, results of operation, or liquidity, although it believes it will be material. The special charges associated with the cost of recalling and repairing the affected

drives are not expected to exceed \$50 million. This estimate excludes any impact on the Company's revenues or market share. The Company has not yet determined how much of the potential loss might be recoverable from insurance sources and from the supplier of the faulty chip.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Quarterly Results of Operations (unaudited)

	Years Ended		
	June 28, 1997	June 27, 1998	July 3, 1999
	(in thousands, except per share amounts)		
Numerator:			
Numerator for basic and diluted earnings (loss) per share – net income (loss)	\$267,596	\$(290,217)	\$(492,690)
Denominator:			
Denominator for basic earnings (loss) per share – weighted average number of common shares outstanding during the period	87,261	87,525	89,478
Incremental common shares attributable to exercise of outstanding options, put options and ESPP contributions	6,261	–	–
Denominator for diluted earnings (loss) per share	93,522	87,525	89,478
Basic earnings (loss) per share	\$ 3.07	\$ (3.32)	\$ (5.51)
Diluted earnings (loss) per share	\$ 2.86	\$ (3.32)	\$ (5.51)

	First (1)	Second(2)	Third (3)	Fourth(4)
	(in thousands, except per share amounts)			
1998				
Revenues, net	\$1,090,164	\$ 969,564	\$ 831,294	\$ 650,503
Gross profit (loss)	161,059	(55,548)	36,279	(41,740)
Operating income (loss)	72,063	(147,198)	(58,221)	(162,469)
Net income (loss)	62,707	(145,183)	(45,022)	(162,719)
Basic earnings (loss) per share	.72	(1.66)	(.51)	(1.84)
Diluted earnings (loss) per share	\$.67	\$ (1.66)	\$ (.51)	\$ (1.84)
1999				
Revenues, net	\$ 650,858	\$ 738,590	\$ 668,456	\$ 709,302
Gross profit (loss)	(82,752)	19,167	39,864	20,873
Operating income (loss)	(192,005)	(79,015)	(110,045)	(95,727)
Net income (loss)	(194,658)	(82,253)	(114,293)	(101,486)
Basic earnings (loss) per share	(2.20)	(.93)	(1.27)	(1.12)
Diluted earnings (loss) per share	\$ (2.20)	\$ (.93)	\$ (1.27)	\$ (1.12)

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) First quarter 1999 includes a \$77.0 million special charge to increase warranty accruals associated with the Company's last generations of thin-film desktop products. The increase was primarily due to a normal increase in units under warranty and the completion of the Company's transition in its desktop business from thin-film to the newer magnetoresistive ("MR") head technology in the June 1998 quarter. This transition and recent experience with thin film returns, which indicated a slightly higher return rate, higher cost of repair and longer duration of returns within the warranty period, resulted in an increase in warranty accruals. Prior to the first quarter of 1999, the Company's experience with returns of older generation thin-film products was that a large percentage of the products which were going to fail, failed in the first six months after sale. However, with the advancements in thin-film recording technology, the gaps between critical components (principally the recording

heads and disks) within the drive became much smaller until they were almost in contact with one another. This made the thin-film drives much more susceptible to environmental factors which typically manifest themselves over long periods of time, such as gases released from the surrounding environment that may permeate through or from other components in the drive. During the first quarter of 1999, the Company began to see consistent data indicating a higher percentage of these advanced thin-film drives coming back after the first six months. That, combined with the significant amount of these drives that were now in the field, led to a higher life-time return rate being applied to a larger base of products in the field. This resulted in a special charge to warranty provision of \$77 million in the first quarter of 1999.

- (2) During the second quarter of 1998, the Company incurred \$148 million of special charges as a result of its decisions to reduce its exposure to the sustained oversupply and unusually competitive pricing pressures in the lower capacity portion of the hard drive marketplace, and to sharpen its focus and resources on its desktop and enterprise storage product lines. This decision led the Company to accelerate its transition to magnetoresistive head technology and to redeploy the resources which were used on development of its mobile disk drive product line back to its core desktop and enterprises disk drive products. The special charges included approximately \$49 million of vendor purchase order cancellation charges on older, thin-film technology components due to reduced production of thin-film products, \$35 million for write-down of inventory and service center stock, \$24 million for incremental warranty accruals on older technology products, \$10 million for write-offs of investments in companies developing advanced thin-film and mobile disk drive technologies, \$8 million of mobile engineering development expenses incurred during

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WESTERN DIGITAL CORPORATION

**SCHEDULE II – CONSOLIDATED VALUATION AND QUALIFYING
ACCOUNTS**

Three years ended July 3, 1999

(in thousands)

the quarter, and \$22 million of other incremental costs incurred within the quarter associated with the accelerated transition out of older, thin-film technology into MR products. Of the total \$148 million special charges, approximately \$8 million was recorded in research and development expense and \$140 million was recorded in cost of sales. Since these charges were either incurred during the second quarter of 1998, or resulted from liabilities incurred or assets impaired upon the Company's decision in the second quarter to implement these actions, the entire \$148 million was recorded in the second quarter of 1998. The inventory referred to above was scrapped or subsequently sold at or slightly above its adjusted book value with minimal gross margin impact. The Company substantially completed its transition to magnetoresistive products by the fourth quarter of 1998, largely as planned, improving its technology leadership position relative to its competitors. Of the total charges, approximately \$100 million required the use of cash. There were no significant subsequent changes to the cost estimates associated with the special charges.

- (3) Third quarter 1999 includes a \$41.0 restructuring charge for the combination of the Company's Personal Storage Division and Enterprise Storage Group and the resulting consolidation of its Singapore facilities (see Note 8 of Notes to Consolidated Financial Statements), and a \$12.0 million charge to in-process research and development expenses for the acquisition of Connex.
- (4) Fourth quarter 1998 results include \$22 million of costs recorded to research and development principally related to the start-up of the IBM Agreement.

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**Item 9. Changes in and Disagreements with
Accountants on Accounting and Financial Disclosure**

None.

PART III

**Item 10. Directors and Executive Officers of the
Registrant**

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting

Compliance," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended July 3, 1999.

Item 11. Executive Compensation

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Stock Performance Graph," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended July 3, 1999.

Item 12. Security Ownership of Certain Beneficial Owners and Management

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders under the caption "Security Ownership of Beneficial Owners," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended July 3, 1999.

Item 13. Certain Relationships and Related Transactions

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 1999 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended July 3, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as a part of this Report:

	Allowance for Doubtful Accounts	Accrued Warranty
Balance at June 29, 1996	\$ 9,376	\$ 13,414
Charges to operations	7,116	67,900
Deductions	(4,786)	(52,416)
Balance at June 28, 1997	11,706	28,898
Charges to operations	4,674	104,600
Deductions	(454)	(86,363)
Balance at June 27, 1998	15,926	47,135
Charges to operations	2,632	153,000
Deductions	(21)	(121,948)
Balance at July 3, 1999	<u>\$18,537</u>	<u>\$ 78,187</u>

(1) Index to Financial Statements

The financial statements included in Part II, Item 8 of this document are filed as part of this Report.

(2) Financial Statement Schedules

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

Separate consolidated financial statements of the Company have been omitted as the Company is primarily an operating company and its subsidiaries are wholly owned and do not have minority equity

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interests and/or indebtedness to any person other than the Company in amounts which together exceed 5% of the total consolidated assets as shown by the most recent year-end consolidated balance sheet.

(3) Exhibits

The financial statement schedule included in Part II, Item 8 of this document is filed as part of this Report.

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Exhibit Number	Description
3.2.2	By-laws of the Company, as amended March 20, 1997(11)
3.3	Certificate of Agreement of Merger(4)
3.4.1	Certificate of Amendment and Restatement of Certificate of Incorporation dated March 27, 1997(11)
4.1.1	Rights Agreement between the Company and American Stock Transfer and Trust Company, as Rights Agent, dated as of October 15, 1998, which includes as Exhibit B thereto the Form of Rights Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(17)
4.2	Form of Common Stock Certificate(1)
4.3	Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company*
4.4	Purchase Agreement dated February 12, 1998, by and between the Company and the Initial Purchasers named therein(14)
4.5	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A.(14)
4.6	Registration Rights Agreement, dated as of February 18, 1998, by and between the Company and the Initial Purchasers named therein(14)
4.7	The Company's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical to the Company's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(14)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(18)**
10.3.2	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 13, 1997(15)**
10.10.1	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(13)**
10.11	The Western Digital Corporation Executive Bonus Plan(6)**
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan(15)**
10.12	The Extended Severance Plan of the Registrant(6)**
10.12.1	Amendment No. 1 to the Company's Extended Severance Plan(9)**
10.13	Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993(5)
10.16.1	Western Digital Long-Term Retention Plan, as amended July 10, 1997(12)**
10.16.2	Western Digital Corporation Executive Retention Plan(16)**
10.17	Subleases between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(3)
10.18	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(3)
10.21.1	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(11)**

Exhibit Number	Description
10.22	Office Building Lease between The Irvine Company and the Company dated as of January 13, 1988(2)
10.30	The Company's Savings and Profit Sharing Plan(7)**
10.31	First Amendment to the Company's Savings and Profit Sharing Plan(7)**
10.32	Second Amendment to the Company's Savings and Profit Sharing Plan(8)**
10.32.1	Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(10)**
10.32.2	Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(11)**
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan(15)**
10.33	The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of July 10, 1997(12)**
10.34	Fiscal Year 1999 Western Digital Management Incentive Plan(16)**
10.35	Fiscal Year 1999-2000 Western Digital Bridge Incentive Plan**
10.38	Revolving Credit and Term Loan Agreement, dated as of November 4, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions listed therein(18)
10.38.1	First Amendment to Revolving Credit and Term Loan Agreement, dated as of April 8, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.2	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of May 7, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.3	Third Amendment to Revolving Credit and Term Loan Agreement, dated as of July 30, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.4	Fourth Amendment to Revolving Credit and Term Loan Agreement, dated as of August 27, 1999, among Western Digital Corporation, BankBoston N.A. and other lending institutions named therein*

10.40 OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(15)(19)
10.41 OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(15)(19)
10.42 Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated***
10.43 Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated***
21 Subsidiaries of the Company*
23 Consent of Independent Auditors*
27 Financial Data Schedule*

* New exhibit filed with this Report.

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

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New exhibit filed with this Report, with confidential treatment requested.

Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.

(1)

Incorporated by reference to Amendment No. 2 to the Company's Annual Report on Form 10-K as filed on Form 8 with the Securities and Exchange Commission on November 18, 1988, and subject to confidentiality order dated November 21, 1988.

(2)

Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.

(3)

Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 33-54968) as filed with the Securities and Exchange Commission on January 26, 1993.

(4)

Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994.

(5)

Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 23, 1994.

(6)

Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 1995.

(7)

Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 16, 1996.

(8)

Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 11, 1996.

(9)

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

No reports on Form 8-K were filed during the fourth quarter of 1999.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

- (10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.
- (11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.
- (12) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.
- (13) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.
- (14) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.
- (15) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 1, 1998.
- (16) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 10, 1998.
- (17) Incorporated by reference to the Company's Form 8A (No. 001-08703) as filed with the Securities and Exchange Commission on November 19, 1998.
- (18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 8, 1999.
- (19) Subject to confidentiality order dated October 2, 1998.

WESTERN DIGITAL CORPORATION

By: DUSTON M. WILLIAMS

Duston M. Williams

Dated: October 1, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on October 1, 1999.

*Senior Vice President
and Chief Financial Officer*

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EXHIBIT INDEX

Signature	Title
CHARLES A. HAGGERTY	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Charles A. Haggerty	
DUSTON M. WILLIAMS	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Duston M. Williams	
JAMES A. ABRAHAMSON	Director
James A. Abrahamson	
PETER D. BEHRENDT	Director
Peter D. Behrendt	
I. M. BOOTH	Director
I. M. Booth	
IRWIN FEDERMAN	Director
Irwin Federman	
ANDRÉ R. HORN	Director
André R. Horn	
ANNE O. KRUEGER	Director

Exhibit Number	Description
3.2.2	By-laws of the Company, as amended March 20, 1997(11)
3.3	Certificate of Agreement of Merger(4)
3.4.1	Certificate of Amendment and Restatement of Certificate of Incorporation dated March 27, 1997(11)
4.1.1	Rights Agreement between the Company and American Stock Transfer and Trust Company, as Rights Agent, dated as of October 15, 1998, which includes as Exhibit B thereto the Form of Rights Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(17)
4.2	Form of Common Stock Certificate(1)
4.3	Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company*
4.4	Purchase Agreement dated February 12, 1998, by and between the Company and the Initial Purchasers named therein(14)
4.5	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A.(14)
4.6	Registration Rights Agreement, dated as of February 18, 1998, by and between the Company and the Initial Purchasers named therein(14)
4.7	The Company's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical to the Company's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(14)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(18)**
10.3.2	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 13, 1997(15)**
10.10.1	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(13)**
10.11	The Western Digital Corporation Executive Bonus Plan(6)**
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan(15)**
10.12	The Extended Severance Plan of the Registrant(6)**
10.12.1	Amendment No. 1 to the Company's Extended Severance Plan(9)**
10.13	Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993(5)
10.16.1	Western Digital Long-Term Retention Plan, as amended July 10, 1997(12)**
10.16.2	Western Digital Corporation Executive Retention Plan(16)**
10.17	Subleases between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(3)
10.18	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(3)
10.21.1	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(11)**
10.22	Office Building Lease between The Irvine Company and the Company dated as of January 13, 1988(2)

Exhibit Number	Description
10.30	The Company's Savings and Profit Sharing Plan(7)**
10.31	First Amendment to the Company's Savings and Profit Sharing Plan(7)**
10.32	Second Amendment to the Company's Savings and Profit Sharing Plan(8)**
10.32.1	Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(10)**
10.32.2	Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(11)**
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan(15)**
10.33	The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of July 10, 1997(12)**
10.34	Fiscal Year 1999 Western Digital Management Incentive Plan(16)**
10.35	Fiscal Year 1999-2000 Western Digital Bridge Incentive Plan***
10.38	Revolving Credit and Term Loan Agreement, dated as of November 4, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions listed therein(18)
10.38.1	First Amendment to Revolving Credit and Term Loan Agreement, dated as of April 8, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.2	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of May 7, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.3	Third Amendment to Revolving Credit and Term Loan Agreement, dated as of July 30, 1999, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.4	Fourth Amendment to Revolving Credit and Term Loan Agreement, dated as of August 27, 1999, among Western Digital Corporation, BankBoston N.A. and other lending institutions named therein*
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(15)(19)
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(15)(19)
10.42	Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated***
10.43	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Incorporated***
21	Subsidiaries of the Company*
23	Consent of Independent Auditors*
27	Financial Data Schedule*

* New exhibit filed with this Report.

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

*** New exhibit filed with this Report, with confidential treatment requested.

Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.

(1)

Incorporated by reference to Amendment No. 2 to the Company's Annual Report on Form 10-K as filed on Form 8 with the Securities and Exchange Commission on November 18, 1988, and subject to confidentiality order dated November 21, 1988.

(2)

- (3) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 1992.
- (4) Incorporated by reference to Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 33-54968) as filed with the Securities and Exchange Commission on January 26, 1993.
- (5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994.
- (6) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 23, 1994.
- (7) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 1995.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 16, 1996.
- (9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 11, 1996.

AMENDED CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS
OF SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
OF
WESTERN DIGITAL CORPORATION

The undersigned, Charles A. Haggerty, the President of WESTERN DIGITAL CORPORATION, a Delaware corporation (the "CORPORATION"), does hereby certify that:

1. The original Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Corporation (the "ORIGINAL SERIES A CERTIFICATE") was filed with the Delaware Secretary of State on December 14, 1988.

2. No shares of Series A Junior Participating Preferred Stock of the Corporation have been issued.

3. Pursuant to the authority conferred upon the Board of Directors by the Amended and Restated Certificate of Incorporation of the Corporation, and Section 151(g) of the Delaware General Corporation Law, on September 10, 1998, the Board of Directors adopted the following resolutions amending the Original Series A Certificate in its entirety, and hereby fixes the relative rights, preferences and limitations of the Series A Junior Participating Preferred Stock, par value \$0.01, as follows:

RESOLVED, that pursuant to Section 151(g) of the Delaware General Corporation Law, the Board of Directors hereby acknowledges that no shares of Series A Junior Participating Preferred Stock of the Corporation have been issued or are outstanding; and

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by the Amended and Restated Certificate of Incorporation, the Board of Directors hereby amends the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Corporation, filed with the Delaware Secretary of State on December 14, 1988, and currently reflected as Article V of the Corporation's Amended and Restated Certificate of Incorporation, as follows:

1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "SERIES A JUNIOR PARTICIPATING PREFERRED STOCK" and the number of shares constituting such series shall be 500,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Junior Participating Preferred Stock.

2. DIVIDENDS AND DISTRIBUTIONS.

(a) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 15th day of January, April, July and October of each year (each a "QUARTERLY DIVIDEND PAYMENT DATE"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$0.25 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the common stock, par value \$0.01 per share, of the Corporation (the "COMMON STOCK") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after September 10, 1998 (the "RIGHTS DECLARATION Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (a) above as a condition to declaration of a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event that no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date, a dividend of \$0.25 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

3. VOTING RIGHTS. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein or by law, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

4. CERTAIN RESTRICTIONS.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distribution on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration any shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock;

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except (i) in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock, or (ii) in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. REACQUIRED SHARES. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as Series A Junior Participating Preferred Stock or as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

6. LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received \$1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "SERIES A LIQUIDATION PREFERENCE"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "COMMON ADJUSTMENT") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (c) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "ADJUSTMENT NUMBER"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. NO REDEMPTION. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

9. RANKING. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's preferred stock, if any, as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

10. AMENDMENT. If there is any Series A Junior Participating Preferred Stock outstanding, the Amended and Restated Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. FRACTIONAL SHARES. Series A Junior Participating Preferred Stock may be issued in fractions of a share, which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

RESOLVED FURTHER, that the Chief Executive Officer, the President or any Vice President and the Secretary or any Assistant Secretary of the Corporation be, and they hereby are, authorized and directed to prepare and file an Amended Certificate of Designation, Preferences and Rights in accordance with the foregoing resolution and the provisions of Delaware law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolution."

IN WITNESS WHEREOF, this Amended Certificate of Designation is executed on November 25, 1998.

WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Charles A. Haggerty

Charles A. Haggerty
Chairman of the Board, President
and Chief Executive Officer

FISCAL YEAR 1999/2000
WESTERN DIGITAL BRIDGE INCENTIVE PROGRAM

PURPOSE

The purpose of this program is to focus participants on achieving key financial and strategic objectives at the corporate and business group levels that will lead to the creation of value for the Company's shareholders and provide participants the opportunity to earn significant awards, commensurate with performance.

ELIGIBILITY

Program eligibility is extended to all employees of Western Digital and selected employees of its domestic subsidiaries who are in, or who are hired into, salary grades 68 and above (or equivalent) on or before July 6, 1999.

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

Employees of Western Digital and its domestic subsidiaries who are in salary grades 67 or below (or equivalent) are eligible for awards generated by a secondary bonus pool.

DESCRIPTION OF THE PROGRAM

The 1999/2000 Bridge Incentive Program will pay as cash awards to participants for the achievement of predetermined performance goals. Each participant will be assigned a pool or target bonus percentage, which when multiplied by the participant's annual base salary as of September 30, 1999, will determine the pool or target bonus payout.

Predetermined performance goals were established and approved by the Compensation Committee of the Board of Directors before April 1, 1999.

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

In addition, individual and pool awards may be adjusted upward or downward by the Chief Executive Officer from the amount generated by the formula. The Chief Executive Officer's award may be adjusted upward or downward by the Compensation Committee.

OPERATION OF THE PROGRAM

Program Period: April 1, 1999 to September 30, 1999

Award Opportunities: The award for participants will be expressed as a percentage of salary, and determined according to salary grade. In general, the target for this program will be one-half of the normal Bonus target.

Performance Measures: Performance will be measured at the corporate and business group levels. Performance measures that will be used in the 1999/2000 Bridge Program are as follows:

- o Profitability
- o Time to Market
- o Time to Volume
- o Time to Quality

Goals and Weighting: Each business group will have goals at the corporate and/or business group level, and each goal will have an assigned weighting. EWS employees will be weighted 100% in the actual results of DPD respectively. Business group Vice Presidents and Senior Directors will have a portion of their results determined by the other business group.

The percentage of target bonus opportunity earned (before discretionary adjustments) will vary from the target bonus opportunity based on actual performance achieved relative to the performance goals.

ADDITIONAL PROVISIONS

Award Thresholds: Corporate operating profit/loss must be at a minimum level for incentives to be paid under any aspect of the Program.

In addition, each business group will have a predetermined operating profit/loss threshold below which no incentives will be paid for that business group.

Total Award Cap: Total awards paid under this Program may not exceed a preset percentage of corporate operating profit as determined by the Compensation Committee. Any award reductions attributable to the preset percentage cap will be made by the Chief Executive Officer.

Award Adjustment: Group award levels may be adjusted upward or downward by up to 25% by the Chief Executive Officer provided that total awards do not exceed the amounts generated by formula. After application of the group performance, individual awards may be adjusted upward or downward based on the adjustment table below. Approval from the Chief Executive Officer is required for adjustments outside of these limits. The Chief Executive Officer's award may be adjusted upward or downward by the Compensation Committee. The adjustments by salary grade level (or equivalent) are as follows:

Salary Grade (or equivalent)	Upward Adjustment	Downward Adjustment
-----	-----	-----
All Participants	+100%	-100%

All awards under this program are discretionary. The amount of the award including adjustments is determined by Western Digital in its sole discretion. No employee has any contractual right to receive an award pursuant to this program due to his/her employment at Western Digital.

- Extraordinary Events:** The Compensation Committee, in its discretion, may adjust the basis upon which performance is measured to reflect the effect of significant changes that include, but are not limited to, unbudgeted acquisitions/ divestitures, unusual or extraordinary accounting items, or significant, unplanned changes in the economic or regulatory environment.
- Termination:** Participants must be employed by the Company at the end of the program year to receive an award. If a participant terminates for reason of retirement, total and permanent disability, or death, the Compensation Committee has the discretion to pay prorated awards based upon the percentage of the year worked.
- Partial Year Participation:** The Compensation Committee, in its discretion, may pay prorated awards to people hired or promoted into eligible positions after April 1, 1999. In general, awards will be prorated for participants who begin before July 6, 1999 while those hired after July 6, 1999 will not be eligible to participate in the program.
- Deferred Payout:** Before the end of the calendar year, the participant may elect to defer payout of all or part of the award in accordance with Western Digital's Deferred Compensation Plan. The deferred amount will be credited with a rate as specified in the Western Digital's Deferred Compensation Plan.
- Payout of Award:** Awards will be paid in cash as soon as possible following the end of the program year or according to the participant's deferral election. Options which vest will be exercisable at the discretion of the participant subject to the terms and conditions of the Employee Stock Option Plan.
- Secondary Pool:** Secondary award pools will be created for employees in salary grades 67 or below (or equivalent) for all corporate and business groups.

FIRST AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

First Amendment dated as of April 8, 1999 to Revolving Credit and Term Loan Agreement (the "First Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of November 4, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks, BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent") and The CIT Group/Business Credit, Inc. as co-agents for the Banks. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower and the Banks have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this First Amendment;

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

SECTION 1. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended by inserting the following definitions in the appropriate alphabetical order:

Komag Disposition. The sale by the Borrower of certain of its assets related to its media production facility to Komag, Incorporated pursuant to an Asset Purchase Agreement dated as of April 8, 1999 between the Borrower and Komag, Incorporated, which Asset Purchase Agreement shall be in form and substance reasonably satisfactory to the Agent, for a purchase price of approximately \$65,000,000, which consideration shall be paid (a) in shares of Komag, Incorporated's common stock having a fair market value at the time of the consummation of the disposition by the Borrower of approximately \$35,000,000; and (b) a subordinated seller note in favor of the Borrower from Komag, Incorporated in the principal amount of approximately \$30,000,000, which subordinated note shall be in substantially the form and substance attached hereto as Exhibit H.

Komag Stock Sale. The sale by the Borrower from time to time pursuant to Section 10.5.2 hereof of the common stock it owns of Komag, Incorporated and which common stock was received by the Borrower from Komag, Incorporated as payment of the purchase price in the Komag Disposition, any other securities issued as a dividend or other distribution with respect to or in exchange for or in replacement of such common stock.

SECTION 2. AMENDMENT TO SECTION 10 OF THE CREDIT AGREEMENT. Section 10 of the Credit Agreement is hereby amended as follows:

(a) Section 10.3(d) of the Credit Agreement is hereby amended by inserting immediately after the words "set forth on Schedule 10.3)" which appear in Section 10.3(d) the words: "and Investments consisting of the shares of common stock of Komag, Incorporated received by the Borrower from Komag, Incorporated as payment of a portion the purchase price in the Komag Disposition, any other securities issued as a dividend or other distribution with respect to or in exchange for or in replacement of such common stock and the Investment consisting of the subordinated note from Komag, Incorporated received by the Borrower from Komag, Incorporated as payment of a portion the purchase price in the Komag Disposition".

(b) Section 10.5 of the Credit Agreement is hereby amended by deleting Section 10.5.2 in its entirety and restating it as follows:

Section 10.5.2. Disposition of Assets. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than the disposition of assets in the ordinary course of business, consistent with past practices; provided, however, so long as no Default or Event of Default shall have occurred and is continuing or would exist after giving effect thereto, the Borrower shall be permitted to (a) enter into a sale and leaseback arrangement in respect of the real property located at Irvine, California and/or Rochester, Minnesota in an arms-length transaction for fair and reasonable value; (b) consummate the Komag Disposition; and (c) consummate any Komag Stock Sale, provided, in the case of any Komag Stock Sale, the total amount of the consideration received by the Borrower for each share of the Komag, Incorporated capital stock sold by the Borrower equals such capital stock's fair market value as determined as of the date of such sale.

Notwithstanding anything to the contrary contained in this Section 10.5.2, (a) the Borrower and its Subsidiaries shall not be permitted to dispose of any assets or take (or omit to take) any action in connection with any asset sale or other disposition or engage in any other transaction which action (or omission) would require any repayment, repurchase or redemption (or any mandatory offer to repay, repurchase or redeem) by the Borrower or any of its Subsidiaries of the Subordinated Notes or any other Subordinated Debt pursuant to the Subordinated Indenture or any other Subordinated Debt Document prior to the repayment in full in cash of all the Obligations and the termination in full of the Total Commitment, or would violate the provisions of the Subordinated Indenture or similar agreement; (b) the Borrower shall not directly or indirectly sell or otherwise dispose of all or substantially all of its assets; and (c) except as expressly permitted in this Section 10.5.2, neither the Borrower nor its Subsidiaries shall sell or otherwise dispose of all or substantially all of the capital stock of any Person which is a Guarantor or is an entity the capital stock of which is pledged under the Loan Documents by the Borrower or any Guarantor, except for transfers to the Borrower or another Guarantor (with each such transfer to the Borrower or another Guarantor to be subject to the Agent's security interest therein for the benefit of the Agent and the Banks).

SECTION 3. CONDITIONS TO EFFECTIVENESS. This First Amendment shall not become effective until the Agent receives a counterpart of this First Amendment, executed by the Borrower, the Guarantors and the Majority Banks.

SECTION 4. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower and its Subsidiaries of this First Amendment and the performance by the Borrower and its Subsidiaries of all of its agreements and obligations under the Credit Agreement as amended hereby and the other Loan Documents are within the corporate authority of each the Borrower and its Subsidiaries and has been duly authorized by all necessary corporate action on the part of the Borrower and its Subsidiaries.

SECTION 5. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this First Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SECTION 6. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

SECTION 7. COUNTERPARTS. This First Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SECTION 8. GOVERNING LAW. THIS FIRST AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Title: Steven M. Slavin
V.P., Taxes & Treasurer

BANKBOSTON, N.A.

By: /s/ [SIGNATURE ILLEGIBLE]

Title: Director

THE CIT GROUP/BUSINESS CREDIT, INC.

By: /s/ [SIGNATURE ILLEGIBLE]

Title: Vice President

HELLER FINANCIAL, INC.

By: /s/ TARA WROBEL

Title: Tara Wrobel

FLEET CAPITAL CORPORATION

By: /s/ MATTHEW R. VAN STEENHUYSE

Matthew R. Van Steenhuyse
Title: Senior Vice President

FINOVA CAPITAL CORPORATION

By: /s/ JASON ITO

Title: Jason Ito
Director

LASALLE BUSINESS CREDIT, INC.

By: /s/ ROBERT ALEXANDER

Robert Alexander
Title: Vice President,
Senior Loan Officer

FREMONT FINANCIAL CORPORATION

By: /s/ THOMAS E. LANE

Thomas E. Lane
Title: Vice President

FLEET BUSINESS CREDIT CORPORATION
(f/k/a SANWA BUSINESS CREDIT CORP.)

By: /s/ MATTHEW R. VAN STEENHUYSE

Matthew R. Van Steenhuyse
Title: Senior Vice President

RATIFICATION OF GUARANTY

The undersigned guarantors hereby acknowledges and consents to the foregoing First Amendment as of April 8, 1999, and agrees that the Guarantee dated as of November 4, 1998 from WD UK and the Guaranty dated as of February 12, 1999 from WDC Storage Systems, Inc. in favor of the Agent and each of the Banks remains in full force and effect, and each Guarantor confirms and ratifies all of its obligations thereunder.

WDC STORAGE SYSTEMS, INC.

By: /s/ A. KEITH PLANT

Title: President

WESTERN DIGITAL (U.K.) LIMITED

By: /s/ MICHAEL A. CORNELIUS

Title: Assistant Secretary

SECOND AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

Second Amendment dated as of May 7, 1999 to Revolving Credit and Term Loan Agreement (the "Second Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of November 4, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks, BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent") and The CIT Group/Business Credit, Inc. as co-agent for the Banks. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower and the Banks have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this Second Amendment;

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

SECTION 1. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) the definition of "Borrowing Base" is hereby amended by deleting the words "the Excess Availability is less than \$100,000,000" which appear in subparagraph (b) of such definition and substituting in place thereof the words "the Excess Availability is less than \$75,000,000";

(b) the definition of "Consolidated Tangible Capital Funds" is hereby amended by deleting such definition in its entirety and restating it as follows:

Consolidated Tangible Capital Funds. As at any date of determination, the sum of (a) Consolidated Tangible Net Worth on such date, plus (b) the aggregate principal amount of the Subordinated Notes outstanding on such date, plus all accrued interest owing on such Subordinated Notes on such date, plus (c) any other adjustments to Consolidated Tangible Net Worth as is agreed in writing among the Borrower, the Agent and the Majority Banks; provided, however, for purposes of calculating compliance with the covenant contained in Section 11.1 hereof, (1) any nonrecurring and restructuring charges taken in the third and fourth fiscal quarters of the 1999 fiscal year, up to an aggregate amount of not more than \$73,000,000 and of which not more than \$15,000,000 shall be in cash and (2) any noncash charges taken in connection with any writedowns in the valuation of the capital stock of Komag, Incorporated which the Borrower obtained in the Komag Disposition, which would otherwise be required to be deducted from the calculation of Consolidated Tangible Capital Funds shall not be deducted for purposes of calculating compliance with Section 11.1 of this Credit Agreement.

SECTION 2. AMENDMENT TO SECTION 2 OF THE CREDIT AGREEMENT. Section 2.11.2(a) of the Credit Agreement is hereby amended by (a) deleting the words "the Excess Availability is greater than \$100,000,000 at all times" which appears in the first sentence of Section 2.11.2(a) and substituting in place thereof the words "the Excess Availability is greater than \$75,000,000 at all times"; and (b) deleting the words "or the Excess Availability at any time is less than \$100,000,000" which appears in the second sentence of Section 2.11.2(a) and substituting in place thereof the words "or the Excess Availability at any time is less than \$75,000,000".

SECTION 3. AMENDMENT TO SECTION 4 OF THE CREDIT AGREEMENT. Section 4 of the Credit Agreement is hereby amended by deleting Section 4.6.2 in its entirety and restating it as follows:

SECTION 4.6.2. PROCEEDS OF ASSET SALES AND EQUITY ISSUANCES.

In the event the Borrower or any of its Subsidiaries receives any (a) Net Cash Sale Proceeds from any Asset Sale permitted by Section 10.5.2 or otherwise consented to in writing by the Agent and the Majority Banks (or, in the event such a sale constitutes a sale of all or substantially all of the Collateral, then all the Banks) (other than (i) Net Cash Sale Proceeds from the sale of equipment or inventory which are to be reinvested by the Borrower or such Subsidiary within ninety (90) days of receipt thereof in replacement assets for those assets sold and (ii) Net Cash Sale Proceeds from any Komag Stock Sale and/or the proceeds received by the Borrower as a result of the repayment by Komag, Incorporated of any amounts owing the Borrower under the promissory note delivered by Komag, Incorporated to the Borrower in connection with the Komag Disposition (the "Komag Note"), provided that immediately after giving effect to any such Komag Stock Sale or the receipt of proceeds on the Komag Note, as the case may be, the Borrower's Excess Availability is not less than \$75,000,000) and the aggregate amount of all Net Cash Sale Proceeds exceeds \$2,500,000 or (b) Net Cash Proceeds from any Equity Issuances by the Borrower or any of its Subsidiaries after the Closing Date (other than Net Cash Proceeds from any Equity Issuance by the Borrower so long as (i) no Default or Event of Default has occurred and is continuing; (ii) immediately after giving effect to any such Equity Issuance, the Borrower's Excess Availability is not less than \$75,000,000 and (iii) the aggregate amount of all such Net Cash Proceeds received by the Borrower which are not used to prepay the Term Loan does not exceed \$150,000,000), the Borrower shall, immediately upon receipt thereof, or, in the case of Net Cash Sale Proceeds which are to be reinvested in replacement assets, ninety (90) days after receipt thereof if such proceeds are not so reinvested within such 90 days, make a prepayment of principal on the Term Loan in the amount of such proceeds (or, in the case of Net Cash Sale Proceeds required to be repaid, in the amount which exceeds \$2,500,000), with such payment being applied against the scheduled installments of principal due on the Term Loan in the inverse order of maturity.

SECTION 4. AMENDMENT TO SECTION 9 OF THE CREDIT AGREEMENT. Section 9 of the Credit Agreement is hereby amended as follows:

(a) Section 9.4(f) of the Credit Agreement is hereby amended by deleting the words "if Excess Availability is less than \$100,000,000" which appear in Section 9.4(f) and substituting in place thereof the words "if Excess Availability is less than \$75,000,000";

(b) Section 9.4(g) of the Credit Agreement is hereby amended by deleting the words "if Excess Availability is less than \$100,000,000" which appear in Section 9.4(g) and substituting in place thereof the words "if Excess Availability is less than \$75,000,000"; and

(c) Section 9.9.2 of the Credit Agreement is hereby amended by deleting the words "and, to the extent Excess Availability is less than \$100,000,000" which appears in Section 9.9.2 and substituting in place thereof the words "and, to the extent Excess Availability is less than \$75,000,000".

SECTION 5. AMENDMENT TO SECTION 10 OF THE CREDIT AGREEMENT. Section 10.5 of the Credit Agreement is hereby amended as follows:

(a) Section 10.5.1 of the Credit Agreement is hereby amended by deleting subparagraph (b) of Section 10.5.1 and restating it as follows: "(b) (i) the merger or consolidation of two or more Subsidiaries of the Borrower so long as, in the event the parties to such merger or consolidation are a Guarantor and a Foreign Subsidiary, the Guarantor is the survivor of such merger and has taken or caused to be taken all action necessary to grant to the Agent a first priority perfected security interest in all of the Borrower's assets after such merger or consolidation; (ii) the acquisition by Western Digital (Singapore) Pte Ltd of all the operating assets of Western Digital (Tuas - Singapore) Pte Ltd.; and (iii) the transfer of assets from one Guarantor to the Borrower or another Guarantor;

(b) Section 10.5.2 of the Credit Agreement is hereby amended by deleting Section 10.5.2 in its entirety and restating it as follows:

SECTION 10.5.2. DISPOSITION OF ASSETS. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than the disposition of assets in the ordinary course of business, consistent with past practices; provided, however, so long as no Default or Event of Default shall have occurred and is continuing or would exist after giving effect thereto, (a) the Borrower shall be permitted to (i) enter into a sale and leaseback arrangement in respect of the real property located at Irvine, California and/or Rochester, Minnesota in an arms-length transaction for fair and reasonable value; (ii) consummate the Komag Disposition; and (iii) consummate any Komag Stock Sale, provided, in the case of any Komag Stock Sale, the total amount of the consideration received by the Borrower for each share of the Komag, Incorporated capital stock sold by the Borrower equals such capital stock's fair market value as determined as of the date of such sale; and (b) each Subsidiary shall be permitted, as the transferor, to enter into any disposition with any other Subsidiary which is expressly permitted by Section 10.5.1(b)(ii) and (iii).

Notwithstanding anything to the contrary contained in this Section 10.5.2, (a) the Borrower and its Subsidiaries shall not be permitted to dispose of any assets or take (or omit to take) any action in connection with any asset sale or other disposition or engage in any other transaction which action (or omission) would require any repayment, repurchase or redemption (or any mandatory offer to repay, repurchase or redeem) by the Borrower or any of its Subsidiaries of the Subordinated Notes or any other Subordinated Debt pursuant to the Subordinated Indenture or any other Subordinated Debt Document prior to the repayment in full in cash of all the Obligations and the termination in full of the Total Commitment, or would violate the provisions of the Subordinated Indenture or similar agreement; (b) the Borrower shall not directly or indirectly

sell or otherwise dispose of all or substantially all of its assets; and (c) except as expressly permitted in this Section 10.5.2, neither the Borrower nor its Subsidiaries shall sell or otherwise dispose of all or substantially all of the capital stock of any Person which is a Guarantor or is an entity the capital stock of which is pledged under the Loan Documents by the Borrower or any Guarantor, except for transfers to the Borrower or another Guarantor (with each such transfer to the Borrower or another Guarantor to be subject to the Agent's security interest therein for the benefit of the Agent and the Banks).

SECTION 6. AMENDMENT TO SECTION 11 OF THE CREDIT AGREEMENT. Section 11 of the Credit Agreement is hereby amended as follows:

(a) Section 11.1 of the Credit Agreement is hereby amended by deleting the chart which appears in Section 11.1 in its entirety and restating it as follows:

PERIOD -----	AMOUNT -----
Closing Date - last day of Second Fiscal Quarter, 1999	\$416,000,000
First Day of Third Fiscal Quarter, 1999 - last day of Third Fiscal Quarter, 1999	\$423,000,000
First Day of Fourth Fiscal Quarter, 1999 - last day of Fourth Fiscal Quarter, 1999	\$410,000,000
First Day of First Fiscal Quarter, 2000 - last day of First Fiscal Quarter, 2000	\$400,000,000
First Day of Second Fiscal Quarter, 2000 - last day of Second Fiscal Quarter, 2000	\$407,000,000
First Day of Third Fiscal Quarter, 2000 - last day of Third Fiscal Quarter, 2000	\$414,000,000
First Day of Fourth Fiscal Quarter, 2000 - last day of Fourth Fiscal Quarter, 2000	\$420,000,000
First Day of First Fiscal Quarter, 2001 - last day of First Fiscal Quarter, 2001	\$427,000,000
First Day of Second Fiscal Quarter, 2001 - last day of Second Fiscal Quarter, 2001	\$434,000,000
First Day of Third Fiscal Quarter, 2001 - last day of Third Fiscal Quarter, 2001	\$441,000,000
Any time thereafter	\$448,000,000

(b) Section 11.2 of the Credit Agreement is hereby amended by deleting Section 11.2 in its entirety and restating it as follows:

11.2. CAPITAL EXPENDITURES. The Borrower will not make, or permit any Subsidiary of the Borrower to make, Capital Expenditures in any fiscal year that exceed, in the aggregate, \$130,000,000 for the Borrower's 1999 fiscal year, \$160,000,000 for the Borrower's 2000 fiscal year and \$170,000,000 in each fiscal year of the Borrower thereafter.

SECTION 7. AMENDMENT TO SCHEDULE 10.3. Schedule 10.3 to the Credit Agreement is hereby amended by deleting that portion of Schedule 10.3 with the headings "Western Digital (I.S.) Limited", "Western Digital (Malaysia) Sdn. Bhd.", "Western Digital (S.E. Asia) Pte Ltd", "Western Digital (Singapore) Pte Ltd." and "Western Digital Hong Kong Limited" and restating each such portion of Schedule 10.3 with that information attached hereto.

SECTION 8. CONDITIONS TO EFFECTIVENESS. This Second Amendment shall not become effective until the Agent receives the following:

(a) a counterpart of this Second Amendment, executed by the Borrower, the Guarantors and the Banks; and

(b) payment in cash of an amendment fee of \$200,000 for the pro rata account of each of the Banks.

SECTION 9. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower and its Subsidiaries of this Second Amendment and the performance by the Borrower and its Subsidiaries of all of its agreements and obligations under the Credit Agreement as amended hereby and the other Loan Documents are within the corporate authority of each the Borrower and its Subsidiaries and has been duly authorized by all necessary corporate action on the part of the Borrower and its Subsidiaries.

SECTION 10. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Second Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SECTION 11. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

SECTION 12. COUNTERPARTS. This Second Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SECTION 13. GOVERNING LAW. THIS SECOND AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Title: V.P., Taxes & Treasurer

BANKBOSTON, N.A.

By: -----
Title:

THE CIT GROUP/BUSINESS CREDIT, INC.

By: -----
Title:

HELLER FINANCIAL, INC.

By: -----
Title:

FLEET CAPITAL CORPORATION

By: -----
Title:

FINOVA CAPITAL CORPORATION

By: -----
Title:

LASALLE BUSINESS CREDIT, INC.

By: /s/ ROBERT ALEXANDER

Title: Vice President,
Senior Loan Officer

FREMONT FINANCIAL CORPORATION

By: -----
Title:

FLEET BUSINESS CREDIT CORPORATION
(f/k/a SANWA BUSINESS CREDIT CORP.)

By: -----
Title:

RATIFICATION OF GUARANTY

The undersigned guarantors hereby acknowledges and consents to the foregoing Second Amendment as of May 7, 1999, and agrees that the Guarantee dated as of November 4, 1998 from WD UK and the Guaranty dated as of February 12, 1999 from Connex, Inc. in favor of the Agent and each of the Banks remains in full force and effect, and each Guarantor confirms and ratifies all of its obligations thereunder.

CONNEX, INC.

By: /s/ A. KEITH PLANT

Title: President

WESTERN DIGITAL (U.K.) LIMITED

By: /s/ MICHAEL A. CORNELIUS

Title: Assistant Secretary

THIRD AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

Third Amendment dated as of July 30, 1999 to Revolving Credit and Term Loan Agreement (the "Third Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of November 4, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks, BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent") and The CIT Group/Business Credit, Inc. as co-agent for the Banks. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower and the Banks have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this Third Amendment;

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

SECTION 1. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended by inserting the following definition in the appropriate alphabetical order:

Irvine Property Disposition. The sale by the Borrower pursuant to and in compliance with Section 10.5.2 hereof of that portion of its real estate located in Irvine, California to The Irvine Company or any of its affiliates pursuant to an Agreement for the Conveyance of Property dated as of August 3, 1999 between the Borrower and The Irvine Company, which Agreement for the Conveyance of Property shall be in form and substance reasonably satisfactory to the Agent, for a cash purchase price of approximately \$26,500,000.

SECTION 2. AMENDMENT TO SECTION 4 OF THE CREDIT AGREEMENT. Section 4 of the Credit Agreement is hereby amended by deleting Section 4.6.2 in its entirety and restating it as follows:

Section 4.6.2. Proceeds of Asset Sales and Equity Issuances. In the event the Borrower or any of its Subsidiaries receives any (a) Net Cash Sale Proceeds from any Asset Sale permitted by Section 10.5.2 or otherwise consented to in writing by the Agent and the Majority Banks (or, in the event such a sale constitutes a sale of all or substantially all of the Collateral, then all the Banks) (other than (i) Net Cash Sale Proceeds from the sale of equipment or inventory which are to be reinvested by the Borrower or such Subsidiary within ninety (90) days of receipt thereof in replacement assets for those assets sold; (ii) Net Cash Sale Proceeds from any Komag Stock Sale and/or the proceeds received by the Borrower as a result of the repayment by Komag, Incorporated of any amounts

owing the Borrower under the promissory note delivered by Komag, Incorporated to the Borrower in connection with the Komag Disposition (the "Komag Note"), provided that immediately after giving effect to any such Komag Stock Sale or the receipt of proceeds on the Komag Note, as the case may be, the Borrower's Excess Availability is not less than \$75,000,000; and (iii) Net Cash Sale Proceeds from the Irvine Property Disposition) and the aggregate amount of all Net Cash Sale Proceeds exceeds \$2,500,000 or (b) Net Cash Proceeds from any Equity Issuances by the Borrower or any of its Subsidiaries after the Closing Date (other than Net Cash Proceeds from any Equity Issuance by the Borrower so long as (i) no Default or Event of Default has occurred and is continuing; (ii) immediately after giving effect to any such Equity Issuance, the Borrower's Excess Availability is not less than \$75,000,000 and (iii) the aggregate amount of all such Net Cash Proceeds received by the Borrower which are not used to prepay the Term Loan does not exceed \$150,000,000), the Borrower shall, immediately upon receipt thereof, or, in the case of Net Cash Sale Proceeds which are to be reinvested in replacement assets, ninety (90) days after receipt thereof if such proceeds are not so reinvested within such 90 days, make a prepayment of principal on the Term Loan in the amount of such proceeds (or, in the case of Net Cash Sale Proceeds required to be repaid, in the amount which exceeds \$2,500,000), with such payment being applied against the scheduled installments of principal due on the Term Loan in the inverse order of maturity.

SECTION 3. AMENDMENT TO SECTION 10 OF THE CREDIT AGREEMENT. Section 10.5.2 of the Credit Agreement is hereby amended by deleting Section 10.5.2 in its entirety and restating it as follows:

Section 10.5.2. Disposition of Assets. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than the disposition of assets in the ordinary course of business, consistent with past practices; provided, however, so long as no Default or Event of Default shall have occurred and is continuing or would exist after giving effect thereto, (a) the Borrower shall be permitted to (i) enter into a sale and leaseback arrangement in respect of the real property located in Rochester, Minnesota in an arms-length transaction for fair and reasonable value; (ii) consummate the Irvine Property Disposition, provided, the Net Cash Sale Proceeds received by the Borrower on the date of the consummation of such disposition is not less than \$25,000,000 in the aggregate; (iii) consummate the Komag Disposition; and (iv) consummate any Komag Stock Sale, provided, in the case of any Komag Stock Sale, the total amount of the consideration received by the Borrower for each share of the Komag, Incorporated capital stock sold by the Borrower equals such capital stock's fair market value as determined as of the date of such sale; and (b) each Subsidiary shall be permitted, as the transferor, to enter into any disposition with any other Subsidiary which is expressly permitted by Section 10.5.1(b)(ii) and (iii).

Notwithstanding anything to the contrary contained in this Section 10.5.2, (a) the Borrower and its Subsidiaries shall not be permitted to dispose of any assets or take (or omit to take) any action in connection with any asset sale or other disposition or engage in any other transaction which action (or omission) would require any repayment, repurchase or redemption (or any mandatory offer to repay, repurchase or redeem) by the Borrower or any of its Subsidiaries of the Subordinated Notes or any other Subordinated Debt pursuant to the Subordinated Indenture or any other Subordinated Debt Document prior to the

repayment in full in cash of all the Obligations and the termination in full of the Total Commitment, or would violate the provisions of the Subordinated Indenture or similar agreement; (b) the Borrower shall not directly or indirectly sell or otherwise dispose of all or substantially all of its assets; and (c) except as expressly permitted in this Section 10.5.2, neither the Borrower nor its Subsidiaries shall sell or otherwise dispose of all or substantially all of the capital stock of any Person which is a Guarantor or is an entity the capital stock of which is pledged under the Loan Documents by the Borrower or any Guarantor, except for transfers to the Borrower or another Guarantor (with each such transfer to the Borrower or another Guarantor to be subject to the Agent's security interest therein for the benefit of the Agent and the Banks).

SECTION 4. CONDITIONS TO EFFECTIVENESS. This Third Amendment shall not become effective until the Agent receives a counterpart of this Third Amendment, executed by the Borrower, the Guarantors and the Banks.

SECTION 5. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower and its Subsidiaries of this Third Amendment and the performance by the Borrower and its Subsidiaries of all of its agreements and obligations under the Credit Agreement as amended hereby and the other Loan Documents are within the corporate authority of each the Borrower and its Subsidiaries and has been duly authorized by all necessary corporate action on the part of the Borrower and its Subsidiaries.

SECTION 6. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Third Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SECTION 7. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

SECTION 8. COUNTERPARTS. This Third Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SECTION 9. GOVERNING LAW. THIS THIRD AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Title: Vice President, Taxes and Treasurer

BANKBOSTON, N.A.

By: _____
Title:

THE CIT GROUP/BUSINESS CREDIT, INC.

By: _____
Title:

HELLER FINANCIAL, INC.

By: _____
Title:

FLEET CAPITAL CORPORATION

By: _____
Title:

FINOVA CAPITAL CORPORATION

By: _____
Title:

LASALLE BUSINESS CREDIT, INC.

By: _____
Title:

FREMONT FINANCIAL CORPORATION

By: /s/ CHERI BUCKINGHAM

Cheri Buckingham
Title: Vice President

FLEET BUSINESS CREDIT CORPORATION
(f/k/a SANWA BUSINESS CREDIT CORP.)

By: _____
Title:

RATIFICATION OF GUARANTY

The undersigned guarantors hereby acknowledges and consents to the foregoing Third Amendment as of July 30, 1999, and agrees that the Guarantee dated as of November 4, 1998 from WD UK and the Guaranty dated as of February 12, 1999 from Connex, Inc. in favor of the Agent and each of the Banks remains in full force and effect, and each Guarantor confirms and ratifies all of its obligations thereunder.

CONNEX, INC.

By: /s/ A. KEITH PLANT

A. Keith Plant
Title: President

WESTERN DIGITAL (U.K.) LIMITED

By: /s/ MICHAEL A. CORNELIUS

Michael A. Cornelius
Title: Assistant Secretary

 FOURTH AMENDMENT
 TO
 REVOLVING CREDIT AND TERM LOAN AGREEMENT

Fourth Amendment dated as of August 27, 1999 to Revolving Credit and Term Loan Agreement (the "Fourth Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of November 4, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks, BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent") and The CIT Group/Business Credit, Inc. as co-agent for the Banks. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the Borrower and the Banks have agreed to modify certain terms and conditions of the Credit Agreement as specifically set forth in this Fourth Amendment;

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

SECTION 1. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) The definition of "Applicable Margin" contained in Section 1.1 of the Credit Agreement is hereby amended by deleting the table which appears in such definition in its entirety and restating it as follows:

Level	Excess Availability	Base Rate Loans (basis points)	Eurodollar Rate Loans (basis points)	Letter of Credit Fees (basis points)

I	(i) Excess Availability is greater than \$150,000,000 and (ii) Consolidated Tangible Net Worth is greater than \$300,000,000	75	200	175
II	(i) Excess Availability is greater than \$150,000,000 and (ii) Consolidated Tangible Net Worth is equal to or less than \$300,000,000	100	225	200
III	Excess Availability is greater than \$100,000,000 but less than or equal to \$150,000,000	125	250	225
IV	Excess Availability is less than or equal to \$100,000,000	150	275	250

(b) the definition of "Consolidated Tangible Capital Funds" is hereby amended by deleting such definition in its entirety and restating it as follows:

Consolidated Tangible Capital Funds. As at any date of determination, the sum of (a) Consolidated Tangible Net Worth on such date, plus (b) the aggregate principal amount of the Subordinated Notes outstanding on such date, plus all accrued interest owing on such Subordinated Notes on such date, plus (c) any other adjustments to Consolidated Tangible Net Worth as is agreed in writing among the Borrower, the Agent and the Majority Banks; provided, however, for purposes of calculating compliance with the covenant contained in Section 11.1 hereof, (1) any nonrecurring and restructuring charges taken in the third and fourth fiscal quarters of the 1999 fiscal year, up to an aggregate amount of not more than \$73,000,000 and of which not more than \$15,000,000 shall be in cash, (2) any one-time restructuring charge taken in the first fiscal quarter of the 2000 fiscal year in connection with the Borrower's consolidation of certain of its operations in Singapore, up to an aggregate amount of not more than \$30,000,000 and (3) any noncash charges taken in connection with any writedowns in the valuation of the capital stock of Komag, Incorporated which the Borrower obtained in the Komag Disposition, which would otherwise be required to be deducted from the calculation of Consolidated Tangible Capital Funds shall not be deducted for purposes of calculating compliance with Section 11.1 of this Credit Agreement.

SECTION 2. AMENDMENT TO SECTION 11 OF THE CREDIT AGREEMENT. Section 11 of the Credit Agreement is hereby amended as follows:

(a) Section 11.1 of the Credit Agreement is hereby amended by deleting the table which appears in Section 11.1 in its entirety and restating it as follows:

PERIOD -----	AMOUNT -----
Closing Date - last day of Second Fiscal Quarter, 1999	\$416,000,000
First Day of Third Fiscal Quarter, 1999 - last day of Third Fiscal Quarter, 1999	\$423,000,000
First Day of Fourth Fiscal Quarter, 1999 - last day of Fourth Fiscal Quarter, 1999	\$410,000,000
First Day of First Fiscal Quarter, 2000 - last day of First Fiscal Quarter, 2000	\$295,000,000
First Day of Second Fiscal Quarter, 2000 - last day of Second Fiscal Quarter, 2000	\$250,000,000
First Day of Third Fiscal Quarter, 2000 - last day of Third Fiscal Quarter, 2000	\$322,000,000
First Day of Fourth Fiscal Quarter, 2000 - last day of Fourth Fiscal Quarter, 2000	\$412,000,000
First Day of First Fiscal Quarter, 2001 - last day of First Fiscal Quarter, 2001	\$427,000,000
First Day of Second Fiscal Quarter, 2001 - last day of Second Fiscal Quarter, 2001	\$434,000,000
First Day of Third Fiscal Quarter, 2001 - last day of Third Fiscal Quarter, 2001	\$441,000,000
Any time thereafter	\$448,000,000

(b) Section 11.2 of the Credit Agreement is hereby amended by deleting Section 11.2 in its entirety and restating it as follows:

11.2. CAPITAL EXPENDITURES. The Borrower will not make, or permit any Subsidiary of the Borrower to make, Capital Expenditures in any fiscal year that exceed, in the aggregate, \$130,000,000 for the Borrower's 1999 fiscal year, \$100,000,000 for the Borrower's 2000 fiscal year and \$170,000,000 in each fiscal year of the Borrower thereafter.

SECTION 3. CONDITIONS TO EFFECTIVENESS. This Fourth Amendment shall not become effective until the Agent receives the following:

(a) a counterpart of this Fourth Amendment, executed by the Borrower, the Guarantors and the Majority Banks;

(b) written notice from the Borrower, dated not later than August 20, 1999, of the Borrower's election pursuant to Section 2.3 of the Credit Agreement to reduce the Total Commitment by \$25,000,000; and

(c) payment by the Borrower to the Agent for the pro rata accounts of the Banks an amendment fee of \$437,500.

SECTION 4. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower and its Subsidiaries of this Fourth Amendment and the performance by the Borrower and its Subsidiaries of all of its agreements and obligations under the Credit Agreement as amended hereby and the other Loan Documents are within the corporate authority of each the Borrower and its Subsidiaries and has been duly authorized by all necessary corporate action on the part of the Borrower and its Subsidiaries.

SECTION 5. RATIFICATION, ETC. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Fourth Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SECTION 6. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

SECTION 7. COUNTERPARTS. This Fourth Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SECTION 8. GOVERNING LAW. THIS FOURTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

IN WITNESS WHEREOF, the parties hereto have executed this Fourth Amendment as a document under seal as of the date first above written.

WESTERN DIGITAL CORPORATION

By: /s/

Title:

BANKBOSTON, N.A.

By: /s/

Title:

THE CIT GROUP/BUSINESS CREDIT, INC.

By: /s/

Title:

HELLER FINANCIAL, INC.

By: /s/

Title:

FLEET CAPITAL CORPORATION

By: /s/

Title:

FINOVA CAPITAL CORPORATION

By: /s/

Title:

LASALLE BUSINESS CREDIT, INC.

By: /s/

Title:

FREMONT FINANCIAL CORPORATION

By: /s/

Title:

FLEET BUSINESS CREDIT CORPORATION
(f/k/a SANWA BUSINESS CREDIT CORP.)

By: /s/

Title:

RATIFICATION OF GUARANTY

The undersigned guarantors hereby acknowledges and consents to the foregoing Fourth Amendment as of August 27, 1999, and agrees that the Guarantee dated as of November 4, 1998 from WD UK and the Guaranty dated as of February __, 1999 from Connex, Inc. in favor of the Agent and each of the Banks remains in full force and effect, and each Guarantor confirms and ratifies all of its obligations thereunder.

CONNEX, INC.

By: /s/ A. KEITH PLANT

Title:

WESTERN DIGITAL (U.K.) LIMITED

By: /s/ MICHAEL A. CORNELIUS

Title:

"***" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

ASSET PURCHASE AGREEMENT
BETWEEN
KOMAG, INCORPORATED
AND
WESTERN DIGITAL CORPORATION
APRIL 8, 1999

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"["**"]" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

INDEX OF EXHIBITS

EXHIBIT -----	DESCRIPTION -----
Exhibit A	List of Acquired Assets
Exhibit B	Excluded Assets
Exhibit C	Cash Prepaid Assets
Exhibit D	Form of Promissory Note
Exhibit E	Form of Assignment and Assumption Agreement
Exhibit F	Form of Bill of Sale
Exhibit G	Form of Volume Purchase Agreement
Exhibit H	Form of Joint Development Agreement
Exhibit I	Form of License Agreement
Exhibit J	Form of Registration Rights Agreement
Exhibit K	Form of Transitional Services Agreement
Exhibit L	Form of Legal Opinion of Counsel to the Company
Exhibit M	Form of Legal Opinion of Counsel to Komag

"["**"]" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

"****" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of April 8, 1999 by and between KOMAG, INCORPORATED, a Delaware corporation ("Komag"), and WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Company"). Komag and the Company are referred to collectively herein as the "Parties."

RECITALS

A. The Boards of Directors of each of the Company and Komag believe it is in the best interests of each company and their respective stockholders that Komag acquire (the "Acquisition") substantially all of the assets of the Company used or useful in connection with the Company's Santa Clara Disk Media operations (the "Media Business") and, in furtherance thereof, have approved the Acquisition.

B. The Company and Komag desire to make certain representations, warranties, covenants and other agreements in connection with the Acquisition.

C. In connection with the Acquisition, the Company and Komag desire to enter into a Volume Purchase Agreement pursuant to which, inter alia, the Company shall purchase certain media products from Komag for use in the Company's disk drive operations.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and as a material inducement to enter into that certain Volume Purchase Agreement (as defined herein), and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions.

(a) As used in this Agreement, the following terms shall have the following meanings, respectively:

"AA Net Book Value" means the Net Book Value for all of the Acquired Assets (other than Finished Goods and Cash Prepaid Assets) as of the Closing Date.

"Accounts Receivable" means all trade accounts receivable, all evidences of indebtedness arising out of sales of Inventory (as defined below) or other property, assets or services of any Person and, to the extent earned by performance which has occurred, all rights to receive payments arising out of sales of Inventory or other property, assets or services to any Person.

 "[***]" INDICATES REDACTED INFORMATION FOR
 WHICH CONFIDENTIAL TREATMENT IS REQUESTED

"Accounts Payable" means all trade accounts payable and all evidences of indebtedness arising out of purchases of Inventory and other property, assets or services by any Person.

"Acquired Assets" means all right, title and interest in and to all of the assets, properties and rights under agreements, contracts, permits, licenses, leases or otherwise, of any kind and description, wherever located, whether real, personal or mixed, whether tangible or intangible, belonging to the Company used in, intended for use in, or required to be used in connection with, the operation of the Media Business as currently conducted, other than the Excluded Assets (as defined below), which shall include, without limitation, those assets and properties listed on Exhibit A attached hereto and the following:

(1) any and all indentures, leases, subleases, licenses, permits, authorizations, commitment obligations or other contracts, agreements or instruments, whether written or oral, and rights thereunder, to which the Company is a party or by which any of the Acquired Assets are bound and which relate to the Media Business including, without limitation, the Contracts (as defined below) marked with an asterisk set forth in Section 3.12(a) of the Company Disclosure Schedule (as defined below) and the Purchase Orders;

(2) any of the following which relate to the Media Business:
 (i) any and all claims, deposits, refunds, causes of action, rights of recovery, rights of set off and rights of recoupment and (ii) any and all franchises, approvals, permits, licenses, orders, registrations, certificates, variances and similar rights obtained from Governmental Entities (as defined below);

(3) any and all Inventory relating to the Media Business, wherever located, owned by the Company or subject to open Purchase Orders consisting of parts or work in progress, including the Finished Goods (but excluding all other finished media)("Media Inventory");

(4) any and all supplies owned by the Company used in the Media Business;

(5) any and all tangible personal property and fixed assets consisting of any equipment, leasehold improvements, fixtures or fittings, furniture, software, machinery, tooling, dies, instruments, motor vehicles, computers, spare parts, replacements parts and trade fixtures, owned or leased by the Company, either (i) located on the Leased Real Property or (ii) used primarily in or intended for use primarily in, or required to be used primarily in connection with, the operation of the Media Business (together, "Fixed Acquired Assets");

(6) any and all business and financial records, books, ledgers, files, plans, documents, supplier lists, correspondence, lists, plots, architectural plans, drawings, notebooks, specifications, creative materials, studies, reports, equipment repair, maintenance or service records and other proprietary or confidential information or data relating to the Media Business or any other Acquired Assets, whether written or electronically stored or otherwise recorded;

 "[***]" INDICATES REDACTED INFORMATION FOR
 WHICH CONFIDENTIAL TREATMENT IS REQUESTED

(7) any and all rights under any contracts, licenses and agreements set forth in Section 3.11(a)(ii) of the Company Disclosure Schedules;

(8) any and all real property, easements, rights of way and other appurtenant rights thereto (such as appurtenant rights in and to public streets), if any, used in, intended for use in, or required to be used in connection with, the operation of the Media Business;

(9) any and all rights with respect to leasehold interests and subleases and rights thereunder relating to the real and personal property, used in, intended for use in, or required to be used in connection with, the operation of the Media Business;

(10) any and all Transferred Prepaid Assets; and

(11) any and all other tangible property, real, personal or mixed, which have been historically reflected in the books and records of the Company and which are either (i) located on the Leased Real Property or (ii) currently used primarily in the operation of the Media Business.

"Affiliate" has the meaning set forth in Rule 12b-2 of the Exchange Act.

"Cash" means cash and cash equivalents (including marketable securities and short term investments) calculated in accordance with GAAP.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor statute thereto, and the rules and regulations promulgated thereunder.

"Collateral Documents" means the Volume Purchase Agreement, the Joint Development Agreement, the Registration Rights Agreement, the License Agreement, the Transitional Services Agreement, the Assignment and Assumption Agreement, the Bill of Sale and the Promissory Note.

"Continuing Environmental Conditions" shall mean (i) any Release of any Hazardous Materials that occurred at any time on or before the Closing Date as a result of Pre-Closing Hazardous Materials Activities and which Release continues to occur after the Closing Date from any pipes, conduits, structures, equipment or other improvements which are on or about any Media Business Facility (as defined below), to the extent any of the foregoing are concealed within or below the improvements, foundation, paving, or subsurface soils on or about such Media Business Facility; (ii) any Pre-Existing Contamination (as defined below) present on or about any Media Business Facility as of the Closing Date which continues to be present on or about such Media Business Facility after the Closing Date, and (iii) any violation by the Company of any Environmental Laws applicable to the Pre-Closing Hazardous Materials Activities conducted on any Media Business Facility which occurs on or before the Closing Date and which continues to occur after the Closing Date.

"****" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

"Employee" means any current, former, or retired employee, consultant, independent contractor, sales representative, officer or director of the Company or any ERISA Affiliate employed or retained in connection with the operation of the Media Business.

"Employee Agreement" means each employment, severance, consulting, relocation, repatriation and expatriation or similar agreement, contract or understanding, whether written or oral, between the Company or any ERISA Affiliate and any Employee.

"Employee Plan" means any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, deferred compensation, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether formal or informal, funded or unfunded and whether or not legally binding, including, without limitation, any "employee benefit plan" (within the meaning of Section 3(3) of ERISA) which is or has been maintained, contributed to, or required to be contributed to, by the Company or any ERISA Affiliate (as defined before) for the benefit of any Employee, and pursuant to which the Company or any ERISA Affiliate has or may have any material Liability or obligation, contingent or otherwise.

"Environmental Claim" shall mean any notice, claim, act, cause of action or investigation by any third party alleging potential Liability (including potential Liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence in the environment, or the Release, of any Hazardous Materials or (B) any violation, or alleged violation, of any Environmental Laws.

"Environmental Laws" shall mean all federal, state, local and foreign laws, statutes, ordinances, rules and regulations relating to the protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata) including laws, statutes, ordinances and regulations relating to the Release of Hazardous Materials or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto, and the rules and regulations promulgated thereunder.

"ERISA Affiliate" means any other Person (as defined below) under common control with the Company within the meaning of Section 414(b), (c), (m) or (o) of the Code and the rules and regulations promulgated thereunder.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor statute thereto, and the rules and regulations promulgated thereunder.

"Excluded Assets" means (i) Cash and Accounts Receivables (and refunds due with respect to the Finished Goods) which relate to the Media Business for sales (or importation with respect to the Finished Goods) of products prior to the Closing Date, (ii) general and administrative

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management information systems of the Company utilized by the Media Business, (iii) any of the rights of the Company under this Agreement or the Collateral Agreements (or under any side agreement between the Company and Komag, entered into on or after the date of this Agreement), (iv) Non-Transferred Prepaid Assets, (v) Intellectual Property of the Company (other than rights under any contracts, licenses and agreements set forth in Section 3.11(a)(ii) of the Company Disclosure Schedules), (vi) all computers or office equipment owned or leased by the Company and used in the Media Business by all Employees who are not Transferred Employees (as defined herein), (vii) all purchase orders of the Company which are not Purchase Orders set forth in Section 1.1(b) of the Company Disclosure Schedule and (viii) all other assets and properties set forth on Exhibit B attached hereto.

"Finished Goods" means any finished media goods specifically produced by the Company in connection with the Media Business which meet the standards and specifications for the Company's Hunter disk-drive program.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Entity" means any government, or political subdivisions thereof, court, tribunal, administrative agency or commission or any other federal, state, province, county, local or foreign governmental or regulatory authority, instrumentality, agency or commission.

"Hazardous Materials" means chemicals, pollutants, contaminants, wastes, toxic substances, radioactive and biological materials, asbestos-containing materials (ACM), hazardous substances, petroleum and petroleum products or any fraction thereof, including, without limitation, those listed pursuant to the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, and the Resource Conservation and Recovery Act of 1976, as amended, or the rules or regulations promulgated thereunder. Hazardous Materials shall not include office and janitorial supplies and products properly and safely maintained.

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

"Inventory" means all inventories including all finished goods, work in progress, stock room inventory, packaging and raw materials of whatever nature, wherever located.

"Intellectual Property" means any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries ("Patents"); (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer lists, and all documentation embodying or evidencing any of the foregoing; (iii) all copyrights, copyrights registrations and applications therefor and all other rights corresponding thereto throughout the world ("Copyrights"); (iv) all mask works, mask work registrations and applications therefor, and

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any equivalent or similar rights in semiconductor masks, layouts, architectures or topology ("Mask Works"); (v) all industrial designs and any registrations and applications therefor throughout the world; (vi) all trade names, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor and all goodwill associated therewith throughout the world ("Trademarks"); (vii) all databases and data collections and all rights therein throughout the world; and (viii) all computer software including all source code, object code, firmware, development tools, files, records and data, all media on which any of the foregoing is recorded; (ix) all World Wide Web addresses, sites and domain names; and (x) any similar, corresponding or equivalent rights to any of the foregoing anywhere in the world.

"knowledge" or words of similar import means, (i) with respect to the Company, the knowledge of Charles A. Haggerty, Michael A. Cornelius, A. Keith Plant, Joseph R. Carrillo, Ray Bukaty, Leo Young, Keith Goodson, Mark Schulte, Jack Van Berkel, Duston M. Williams, Thomas Nieto, Terry Hopp, Matt Massengill, Robert Parmelee, Thomas A. Seche and Russ Krapf, and the knowledge such Person would have if he or she had performed his or her services and duties on behalf of such Person in the ordinary course of business, consistent with past practices, in a reasonably diligent manner, but without additional investigation or inquiry beyond that required for the discharge of his or her duties in the ordinary course of business, consistent with past practices, in a reasonably diligent manner and (ii) with respect to Komag, the knowledge of Stephen C. Johnson, William L. Potts, Ted Siegler, Ron Allen, Kathy Bayless, Betsy Lamb, Stacey Layzell, Rick Austin, Chris Bajorek, Ray Martin, Allen McCarthy, Beth McKone, TH Tan, Eric Tu and Tu Chen, and the knowledge such Person would have if he or she had performed his or her services and duties on behalf of such Person in the ordinary course of business, consistent with past practices, in a reasonably diligent manner, but without additional investigation or inquiry beyond that required for the discharge of his or her duties in the ordinary course of business, consistent with past practices, in a reasonably diligent manner.

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

"Liability" means any liability, indebtedness, obligation, expense, loss, damage, cost, claim, contingent liability, deficiency, guaranty or endorsement (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether direct or indirect, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

"Liens" means any mortgage, pledge, lien, security interest, encumbrance, charge, claim, defect in title or other equitable or third-party interest.

"Media Business Facilities" shall mean the Leased Real Property listed in Section 3.10(a) of the Company Disclosure Schedule.

"Media Intellectual Property" means any Intellectual Property that is owned by or licensed to the Company which is necessary to the operation of the Media Business, including the

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design, manufacture, licensing, sale and use of the products or performance of the services of the Media Business as it currently is conducted.

"Multiemployer Plan" means any Pension Plan (as defined below) which is a "multiemployer plan" (within the meaning of Section 3(37) of ERISA).

"Net Book Value" means, as to any assets, an amount equal to the aggregate cost of such assets less the accumulated depreciation and amortization of such assets.

"Non-Transferred Prepaid Assets" means all Prepaid Assets which are not Transferred Prepaid Assets.

"Pension Plan" means each Employee Plan which is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA.

"Permitted Liens" means (a) Liens for current taxes not yet due for which appropriate accruals in accordance with GAAP have been created, (b) with respect to Leased Real Property only, recorded liens, encumbrances, easements, rights of way, restrictions and other conditions of record affecting the Leased Real Property excluding, however, liens recorded against the Leased Real Property or as a result of any action or inaction by the Company, (c) Liens evidenced by UCC-1 financing statements recorded with respect to Leased Fixed Assets by the lessors of such Leased Fixed Assets and which are set forth in Section 1.1(a) of the Company Disclosure Schedule, and (d) Liens which will be discharged by the Company prior to or concurrently with the Closing and which are set forth in Section 1.1(a) of the Company Disclosure Schedule.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or a Governmental Entity (or any department, agency or political subdivision thereof).

"Pre-Closing Hazardous Materials Activities" means the transportation, transfer, recycling, storage, use, handling, treatment, manufacture, removal, investigation, remediation, Release, sale, or distribution of any Hazardous Materials, or any product or waste containing Hazardous Materials conducted on any Media Business Facility prior to the Closing Date by or at the direction of the Company or otherwise occurring prior to the Closing Date in connection with or to benefit the Media Business.

"Pre-Existing Contamination" means the presence on or before the Closing Date of any Hazardous Materials in the soil, groundwater, surface water, air or building materials of any Media Business Facility which results from Pre-Closing Hazardous Materials Activities or for which the Company has contractually assumed liability.

"Prepaid Assets" means prepaid rentals, security deposits, lease payments, prepaid sales tax, utilities, payroll obligations paid by the Company with respect to periods after the Closing Date, and other prepaid expenses of the Company relating to the Media Business including, without

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limitation, software licenses, software maintenance fees and property taxes relating to the fixed assets included within the Acquired Assets.

"Purchase Orders" means any purchase orders of the Company relating to the Media Business identified in Section 1.1(b) of the Company Disclosure Schedule.

"Release" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including, without limitation, the movement of Hazardous Materials through ambient air, soil, surface water, groundwater, wetlands, land or subsurface strata.

"Securities Act" means the Securities Act of 1933, as amended, or any successor statute thereto, and the rules and regulations promulgated thereunder.

"Seller's Retained Environmental Liabilities" means any Liability, obligation, judgment, penalty, fine, cost or expense, including without limitation the cost or expense of fulfilling any Environmental Laws, duty to investigate, remediate, remove, or take other action with respect to Hazardous Materials, or duty to indemnify, defend or reimburse any Person with respect to: (i) Pre-Existing Contamination; (ii) Continuing Environmental Conditions; (iii) the migration at any time prior to or after the Closing Date of Pre-Existing Contamination to any other real property, or the soil, groundwater, surface water, air or building materials thereof; (iv) any Pre-Closing Hazardous Materials Activities; (v) the exposure of any Person to Pre-Existing Contamination or to Hazardous Materials in the course of or as a consequence of any Pre-Closing Hazardous Materials Activities, without regard to whether any health effect of the exposure has been manifested as of the Closing Date; (vi) the violation of any Environmental Laws by the Company or its agents, employees, predecessors in interest, contractors, invitees or licensees prior to the Closing Date or in connection with any Pre-Closing Hazardous Materials Activities prior to the Closing Date; and (vii) any actions or proceedings brought or threatened by any third party with respect to any of the foregoing.

"Transferred Prepaid Assets" means (i) all Prepaid Assets set forth on the Closing NBV Statement ("NBV Prepaid Assets") and (ii) all Prepaid Assets listed on Exhibit C attached hereto ("Cash Prepaid Assets").

(b) The following terms are defined in the following sections of this Agreement:

Terms -----	Sections -----
Acquisition Agreement	Preamble
Assignment and Assumption Agreement	Preamble
Assumed Liabilities	7.2(g)
Auditors' Letter	2.2(a)
Authorizations	2.3(b)(iv)
Balance Sheet Date	3.14
Bill of Sale	3.6(a)
	7.2(h)

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Terms -----	Sections -----
Cash Prepaid Assets Net Book Value	2.3(a)(ii)
Charter	3.1
Closing	2.5(a)
Closing Date	2.5(a)
Closing AA Net Book Value	2.3(b)(iii)
Closing CPA Net Book Value	2.3(b)(iv)
COBRA	6.8(d)
Company	Preamble
Company Disclosure Schedule	Article III
Company Indemnifiable Claims	8.2(b)
Company Indemnitees	8.2(b)
Company SEC Documents	3.6(a)
Conflict	3.4
Contract	3.12(b)
Damages	8.2
Disposal Sites	3.22(e)
DOL	3.20(b)
Environmental Covenants	8.5
Environmental Permits	3.22(c)
Escrow Agreement	2.7(b)
Final Closing NBV Statement	2.3(b)(iv)
Indemnifiable Claim	8.4(a)
Indemnifying Party	8.4(a)
Indemnitee	8.3
Joint Development Agreement	7.2(j)
Komag	Preamble
Komag Common Stock	Preamble
Komag Disclosure Schedule	Article III
Komag Financial Statements	4.6
Komag Indemnifiable Claim	8.2(a)
Komag Indemnitee	8.2(a)
Komag SEC Documents	4.6
Labor Representatives	3.12(a)
Leased Fixed Assets	3.10(b)
Leased Real Property	3.10(a)
License Agreement	7.2(k)
Media Business	Preamble
NBV Accounting Procedures	2.3(c)(i)
Non-Offered Employees	6.8(c)
Non-Transferable Asset	2.7(a)
Note Amount	2.3(a)(i)

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Terms -----	Sections -----
Offered Employees	6.8(a)
Officer's Certificate	8.4
Original Sale Shares	2.3(c)(ii)
Original Note Amount	2.3(c)(iii)
Outside Auditors	2.3(b)(iv)
Parties	Preamble
Preliminary Closing NBV Statement	2.3(b)(iii)
Promissory Note	2.3(a)(i)
Purchase Price	2.3(a)
Registration Rights Agreement	7.2(1)
Rental Fees	2.4
Retained Liabilities	2.2(b)
Revised AA Net Book Value	2.3(b)(iv)
Revised CPA Net Book Value	2.3(b)(iv)
Sale Shares	2.3(a)(i)
Sales Tax	2.2(a)
SEC	3.6(a)
Share Amount	2.3(a)(i)
Share Amount Cap	2.3(a)(i)
Share Price	2.3(a)(i)
Signing NBV Statement	2.3(b)(i)
Tax	3.8(a)
Tax Returns	3.8(b)
Threshold Amount	8.3
Transferred Employees	6.8(a)
Utility Charges	2.4
Volume Purchase Agreement	7.2(i)
WARN Act	6.8(c)

ARTICLE II

PURCHASE AND SALE TRANSACTION

2.1 Purchase and Sale of Acquired Assets. On and subject to the terms and conditions of this Agreement, Komag agrees to purchase from the Company, and the Company agrees to sell, transfer, assign, convey and deliver to Komag, at the Closing, all of the Company's rights, title and interest in and to the Acquired Assets, free and clear of any and all Liens, other than Permitted Liens.

2.2 Assumption of Liabilities.

(a) On and subject to the terms and conditions of this Agreement and except as otherwise set forth herein, Komag agrees to assume and become responsible for only the following

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Liabilities of the Company: (i) Liabilities under all Leased Real Property only to the extent the rights of such real property leases have been assigned to Komag and to the extent such Liabilities first arise or accrue on or after the Closing Date, (ii) Liabilities under all equipment leases with Comdisco, Leasing Solutions, Inc. and AT&T Corp. which are used or utilized in connection with the Media Business only to the extent the rights of such equipment leases have been assigned to Komag and to the extent such Liabilities first arise or accrue on or after the Closing Date, (iii) Liabilities under all agreements, contracts or Purchase Orders with all vendors and suppliers which have been entered into in the ordinary course of business, consistent with past practices, relating to the Media Business only to the extent the rights of such agreements, contracts or purchase orders have been assigned to Komag and to the extent such Liabilities first arise or accrue on or after the Closing Date, (iv) Liabilities under all third party licenses or other similar agreements related to the Acquired Assets only to the extent the rights under such licenses or similar agreements have been assigned to Komag and to the extent such Liabilities first arise or accrue on or after the Closing Date, (v) Liabilities under all other agreements, contracts or Purchase Orders which have been marked with an asterisk in Section 3.12(a) of the Company Disclosure Schedule only to the extent the rights under such agreements, contracts or purchase orders have been assigned to Komag and to the extent such Liabilities first arise or accrue on or after the Closing Date, (vi) Liabilities of any of the Parties for any sales taxes, use taxes, transfer taxes, recording fees and similar taxes, charges, fees or expenses ("Sales Tax") that may become payable by reason of or in connection with the Acquisition, (vii) Liabilities of any of the Parties for any federal, state, local or foreign Taxes, duties, withholdings or other assessments imposed on any of the Parties as a result of the movement by Komag or any of its Affiliates of the manufacturing lines of the Media Business to Malaysia following the Closing, (viii) Liabilities which may be sustained, suffered or incurred under the WARN Act as specifically allocated to Komag under Section 6.8(c) and (ix) Liabilities arising from the operation of the Media Business following the Closing (together, the "Assumed Liabilities").

(b) Komag will not assume or have any responsibility, however, with respect to any Liability of the Company not included within the definition of Assumed Liabilities, and such Liabilities shall be retained by the Company ("Retained Liabilities"). Without limiting the generality of the foregoing, it is expressly agreed that Komag shall not assume, and the definition of Retained Liabilities shall include, any and all (i) Liabilities for employee benefits including, without limitation, vacation pay and similar accruals, COBRA benefits, severance and termination pay owed to all Employees not employed by Komag immediately following the Closing Date, (ii) Liabilities under any agreements, contracts or commitments of which the Company is a party or by which the Company is bound that are not assigned to Komag, (iii) Liabilities for indebtedness of the Company, (iv) Liabilities for Taxes due and payable by the Company including Taxes with respect to the Media Business and the ownership of the Acquired Assets or otherwise for periods ending on or prior to the Closing Date (other than Sales Tax that may become payable by reason of or in connection with the Acquisition, Taxes which are the obligation of Komag pursuant to, and to the extent set forth in, Section 2.4, and such other Taxes described in Section 2.2(a)(vii)), (v) Liabilities for Accounts Payable or similar obligations incurred by the Company in connection with the operation of the Media Business on or prior to the Closing, (vi) Seller's Retained Environmental Liabilities, (vii) Liabilities for any claims or litigation (including, without limitation, those relating to any infringement of Intellectual Property) which are pending or threatened against the Company or any

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of the Acquired Assets on or prior to the Closing Date or which are brought or threatened to be brought against the Company or the Acquired Assets after the Closing Date, but which are based upon facts or circumstances involving the operation of the Media Business prior to the Closing Date, (viii) Liabilities which may be sustained, suffered or incurred under the WARN Act as specifically allocated to the Company under Section 6.8(c); and (ix) Liabilities relating to the Excluded Assets.

2.3 Purchase Price for Acquired Assets; Post Closing Adjustment.

(a) Purchase Price. In consideration for the purchase of the Acquired Assets, Komag agrees to pay to the Company at the Closing a purchase price payable in the following amounts (the "Purchase Price") as follows:

(i) With respect to the purchase of all of the Acquired Assets (other than the Finished Goods and the Cash Prepaid Assets),

(1) Komag shall deliver to the Company at the Closing [***] shares of unregistered Komag Common Stock (the "Sale Shares"); and

(2) Komag shall deliver to the Company at the Closing a promissory note, substantially in the form attached hereto as Exhibit D (the "Promissory Note"), in the aggregate principal amount equal to \$[***].

(ii) With respect to the purchase of the Cash Prepaid Assets, Komag shall deliver to the Company at the Closing an amount in cash equal to the [***].

(iii) With respect to the purchase of the Finished Goods, Komag shall deliver to the Company no later than [***] (or such earlier date as the Parties may mutually agree) an amount in cash equal to \$[***], which the parties acknowledge and agree represents [***] as of the Closing Date for the Finished Goods.

(b) NBV Statements.

(i) The Company has delivered to Komag a statement summarized by financial statement caption of the Acquired Assets (the "Signing NBV Statement") as well as supporting detail schedules as of February 20, 1999 which include (A) each item included in the Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets), (B) the cost of each of such items of Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets) when purchased by the Company, (C) the accumulated depreciation and amortization applicable to each item of the Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets), (D) a detailed listing of the cost of the Finished Goods and the Cash Prepaid Assets and (E) the AA Net Book Value and the Cash Prepaid Assets Net Book Value.

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(ii) The Company represents and warrants to Komag that the Signing NBV Statement has been prepared from the books and records of the Company in accordance with GAAP, consistent with the accounting principles used in the preparation of the Company's annual audited financial statements. The Company has, and has requested its internal accountants to, make available to Komag and its accountants copies of all customary accounting and other work papers in their respective possession that were prepared in connection with the preparation of the Signing NBV Statement.

(iii) On the Closing Date, the Company shall deliver to Komag an updated version of the Signing NBV Statement ("Preliminary Closing NBV Statement") setting forth the items identified in subsection (b)(i) above as of the Closing Date including calculation of the AA Net Book Value ("Closing AA Net Book Value") and the Cash Prepaid Assets Net Book Value ("Closing CPA Net Book Value"), revised in each case, if appropriate, to include any adjustments agreed upon between the Parties since the date of the Signing NBV Statement. The Preliminary Closing NBV Statement shall be accompanied by a certificate signed by a duly authorized officer of the Company certifying as to the accuracy and completeness of the Preliminary Closing NBV Statement as of the Closing Date. The Preliminary Closing NBV Statement shall be prepared from the books and records of the Company in accordance with GAAP, consistent with the accounting principles used in the preparation of the Company's annual audited financial statements. The Company will, and will request its internal accountants to, make available to Komag and its accountants copies of all customary accounting and other work papers in their respective possession that were prepared in connection with the preparation of the Preliminary Closing NBV Statement.

(iv) Within thirty (30) calendar days following the Closing, the Company shall submit to Komag in writing any and all changes and adjustments to the Preliminary Closing NBV Statement necessary to reflect properly the actual AA Net Book Value and the Closing Prepaid Assets Net Book Value, each as of the Closing Date (the "Final Closing NBV Statement"), revised in each case, if appropriate, to include any adjustments agreed upon between the Parties since the date of the Preliminary Closing NBV Statement, together with a special purpose report prepared by the Company's outside auditors ("Outside Auditors") which shall confirm that the calculations of the AA Net Book Value and the Closing CPA Net Book Value set forth on the Final Closing NBV Statement have been accurately derived from, and tied to, the books and records of the Company ("Special Purpose Report"). In preparing the Special Purpose Report, the Outside Auditors shall use the procedures set forth in that certain letter (the "Auditors' Letter") from the Outside Auditors to the Company dated April 8, 1999, a copy of which has been provided to Komag. The reasonable fees and expenses of the Outside Auditors shall be borne by Komag. The revision of the AA Net Book Value or the Closing CPA Net Book Value, as applicable, set forth on the Final Closing NBV Statement shall be deemed the "Revised AA Net Book Value" or the "Revised CPA Net Book Value", as applicable.

(c) Determination of Cash Prepaid Assets Net Book Value; Adjustment to Cash Portion of Purchase Price. The Cash Prepaid Assets Net Book Value utilized in calculating the amount of cash to be paid by Komag to the Company following the Closing shall be deemed to be the Closing CPA Net Book Value; provided that, following the Closing, if the Cash Prepaid Assets

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Net Book Value is revised pursuant to Sections 2.3(b)(iv) hereof and such Revised CPA Net Book Value is less than the Closing CPA Net Book Value, then the Company shall promptly, and in no event more than ten (10) business days after providing Komag the Final Closing NBV Statement, pay to Komag an amount in cash equal to the difference between the Closing CPA Net Book Value and the Revised CPA Net Book Value. No adjustment to the cash portion of the purchase price will be made if the Revised CPA Net Book Value is equal to or greater than the Closing CPA Net Book Value.

(d) Acknowledgment regarding AA Net Book Value. The Parties acknowledge and agree that the AA Net Book Value and Closing AA Net Book Value set forth on the Signing NBV Statement and the Closing NBV Statement, respectively, were utilized to determine the portion of the Purchase Price to be paid in consideration for the Acquired Assets (excluding the Finished Goods and Cash Prepaid Assets), which the Parties acknowledge to be approximately \$65,000,000. The Parties further acknowledge and agree that, if the actual AA Net Book Value is less than \$65,000,000, Komag will have suffered damages or losses for which Komag is entitled to seek indemnification pursuant to Article VIII of this Agreement in such amount that the actual AA Net Book Value is less than the \$65,000,000.

2.4 Transfer Taxes. Komag shall pay and promptly discharge when due any and all Sales Taxes that may become payable by reason of or in connection with the Acquisition; provided that the Company shall use commercially reasonable efforts to assist Komag in minimizing any Liability for such Sales Tax. The amount of Sales Tax collectible from Komag by the Company shall be reduced by the amount of the deduction to which the Company is entitled for "Tax-paid purchases resold" as defined in its California Sales and Use Tax Regulation Section 1707, with respect to the Acquired Assets. The Company and Komag shall prorate between them (a) secured and unsecured property Taxes on all Acquired Assets, (b) sewer and water rentals and utility charges applicable to the Leased Real Property ("Utility Charges") and (c) rentals, fees, assessments and similar charges with respect to the agreements, contracts, licenses and permits included in the Acquired Assets ("Rental Fees"). In the case of taxable or other relevant payment periods commencing on or before the Closing Date and ending after the Closing Date, secured and unsecured property Taxes, Utility Charges and Rental Fees which relate to any period on or before the Closing Date or after the Closing Date, as applicable, shall be in the case of Utility Charges, Rental Fees and secured and unsecured property Taxes (that are not based on net income, gross income, sales, premiums or gross receipts), the total amount of such Utility Charges, Rental Fees and secured and unsecured Taxes for the period in question multiplied by a fraction, the numerator of which is the number of days in the portion of such period through the Closing Date or after such date, and the denominator of which is the total number of days in such period.

2.5 The Closing.

(a) Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, in Palo Alto, California commencing at 9:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate

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the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the "Closing Date").

(b) Deliveries at the Closing. At the Closing, (i) the Company will deliver to Komag the various certificates, instruments and documents referred to in Section 7.2 below and will execute and acknowledge (if appropriate) and deliver such other instruments of sale, transfer, conveyance and assignment as Komag and its counsel may reasonably request; (ii) Komag will deliver to the Company the various certificates, instruments and documents referred to in Section 7.3 below and will execute and acknowledge (if appropriate) and deliver such other instruments of assumption as the Company and its counsel may reasonably request; and (iii) Komag will deliver to the Company stock certificates representing the Sale Shares in the amount determined in accordance with Section 2.3 above.

2.6 Taking of Necessary Action; Further Action. If, at any time after the Closing Date, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest Komag with full right, title and possession to the Acquired Assets, the officers and directors of the Company are fully authorized in the name the Company or otherwise to take, and will take, all such lawful and necessary and/or desirable action.

2.7 Nonassignability and Consents.

(a) To the extent that any asset which would otherwise be an Acquired Asset, or any claim, right or benefit arising thereunder or resulting therefrom, is not capable of being sold, conveyed, assigned, transferred or delivered without the approval, consent or waiver of any Person (including any Governmental Entity) other than the Company, or if such sale, conveyance, assignment, transfer or delivery or attempted sale, conveyance, assignment, transfer or delivery would constitute a breach or termination right thereof or a violation of any law, decree, order, regulation or other governmental edict, except as expressly otherwise provided herein, this Agreement shall not constitute a sale, conveyance, assignment, transfer or delivery thereof, or an attempted sale, conveyance, assignment, transfer or delivery thereof. Any such assets shall be a "Non-Transferable Asset."

(b) The Company shall not be obligated to sell, assign, transfer, convey or deliver, or cause to be sold, assigned, transferred, conveyed or delivered, to Komag, and Komag shall not be obligated to purchase, any Non-Transferable Asset without first having obtained all such consents, approvals or waivers or removed or eliminated any such potential breach or termination of any contract, agreement or other instrument or potential violation of any law, decree, order, regulation or other governmental edict. To the extent that at the Closing there are any Non-Transferable Assets, from and after the Closing, the Parties will cooperate, at the Company's expense, to effect a lawful and mutually acceptable arrangement under which Komag would obtain the benefit of such Non-Transferable Asset, including subcontracting, sub-licensing, or sub-leasing such Non-Transferable Asset to Komag, and Komag, so long as such benefit is so provided, would satisfy or perform any Liabilities or obligations under or in connection with such Non-Transferable Asset which may arise

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following the Closing which would not otherwise be a Retained Liability if such Non-Transferable Asset were an Acquired Asset. From and after the Closing Date, the Company will promptly pay to Komag when received all monies received by the Company under any Acquired Asset or any claim or right or any benefit arising thereunder, except to the extent the same represents an Excluded Asset. Notwithstanding the foregoing, nothing contained herein shall in anyway affect the rights or obligations of the Parties under that certain Escrow Agreement dated February 19, 1999 ("Escrow Agreement") with respect to the distribution of the Property (as defined therein) in accordance with the terms thereof.

(c) At any time after Closing, if any Non-Transferable Asset becomes capable of being sold, assigned, transferred, conveyed or delivered to Komag, or if the benefit can be provided to Komag without the required consent, approval or waiver of any third party, and if such sale, assignment, transfer, conveyance or delivery, or the provision of such benefit would not constitute a breach or termination of any agreement, contract or other instrument or violation of law, decree, order, regulation or other governmental edict, then, at such time, the Company shall sell, assign, transfer, convey and deliver to Komag or cause to be sold, assigned, transferred, conveyed and delivered to Komag, or provide to Komag the benefit of such asset and, if such asset is an agreement, contract, instrument, license or permit, Komag shall assume the Liabilities and obligations of the Company thereunder to the extent such Liabilities and obligations arise from the performance of the agreement, contract, instrument, license or permit from and after the effective date of such assignment and to the extent such Liabilities and obligations would not otherwise be Retained Liabilities if such Non-Transferable Asset were an Acquired Asset.

(d) Notwithstanding anything contained in this Agreement to the contrary, in addition to (and not in lieu of) any of the other rights, remedies and obligations of the Parties hereunder, (i) in the event that the Company is unable to obtain prior to the Closing any of the consents, waivers and approval referenced in Section 6.5 of this Agreement (including, without limitation, under any contracts set forth in Section 3.4, 3.5, 3.10(b), 3.10(c), 3.11(a)(ii), 3.12(a) and 3.14 of the Company Disclosure Schedules) as required pursuant to this Agreement, the Company shall, within thirty (30) days following the Closing Date, obtain all such consents, waivers and approvals, in form and substance reasonably acceptable to Komag and (ii) in the event that the Company is unable to discharge or remove prior to the Closing any of the Liens set forth in Section 1.1(a) of the Company Disclosure Schedules as required pursuant to this Agreement, the Company shall, within thirty (30) days following the Closing Date, have all such Liens discharged and/or removed in a manner reasonably acceptable to Komag.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Komag as of the date hereof, and as of the Closing Date, except as specifically set forth in the disclosure schedule accompanying this Agreement (referring to the appropriate section numbers) (the "Company Disclosure Schedule"), as follows:

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3.1 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has the corporate power and authority to own the Acquired Assets and to carry on the Media Business as now being conducted and as contemplated to be conducted. The Company is duly qualified to do business and in good standing as a foreign corporation under the laws of each jurisdiction in which the failure to be so qualified could have a material adverse effect on the Acquired Assets or the Media Business. The Company has delivered to Komag and its counsel true and correct copies of its Certificate of Incorporation and Bylaws, which have not been amended since November 25, 1998 (together, the "Charter").

3.2 Media Business Contained in the Company. All of the assets, properties and rights under agreements, contracts, licenses and leases constituting the Acquired Assets, and used by or utilized in connection with the Media Business, are owned, leased, held or licensed by the Company and not by any subsidiary or Affiliate thereof.

3.3 Authority. The Company has all requisite corporate power and authority to enter into this Agreement and each of the Collateral Documents and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and each of the Collateral Documents by the Company, and the consummation of the transactions contemplated hereby and thereby by the Company, have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been, and each of the Collateral Documents will be at Closing, duly executed and delivered by the Company and, assuming the due authorization execution and delivery by the other parties hereto and thereto, upon execution, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and to rules of law governing specific performance, injunctive relief or other equitable remedies.

3.4 No Conflict. The execution and delivery of this Agreement and each of the Collateral Documents by the Company does not, and the consummation of the transactions contemplated hereby and thereby by the Company will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (any such event, a "Conflict") (a) any provision of the Charter, (b) any Contract or any other mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which any of the Acquired Assets is subject or by which any of the Acquired Assets are bound, (c) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which the Company is subject or by which the Company is bound or (d) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or the Acquired Assets, assuming, in each case, compliance with (x) any applicable requirements under the HSR Act, (y) any applicable requirements under the Exchange Act and (z) such other matters set forth in Section 3.4 of the Company Disclosure Schedule.

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3.5 Consents. No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person, including a party to any agreement with the Company (so as not to trigger any Conflict), is required by or with respect to the Company in connection with the execution and delivery of this Agreement or any of the Collateral Documents or the consummation of the transactions contemplated hereby or thereby by the Company, except for such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings (a) as may be required under the HSR Act, (b) as may be set forth in Section 3.5 of the Company Disclosure Schedule or (c) which, if not obtained or made, would not materially impair the ability of the Company to consummate the transactions contemplated by the Agreement and the Collateral Documents.

3.6 Financial Matters.

(a) The Company has furnished or made available to Komag true and complete copies of all reports or registration statements filed by it with the U.S. Securities and Exchange Commission (the "SEC") under the Exchange Act, for all periods subsequent to December 27, 1997, all in the form so filed (all of the foregoing being collectively referred to as the "Company SEC Documents"). As of their respective filing dates, the Company SEC Documents complied in all material respects with the requirements of the Exchange Act, and none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent corrected by a subsequently filed Company SEC Document.

(b) The Signing NBV Statement has been, and the Preliminary Closing NBV Statement and Final Closing NBV Statement shall be, prepared from the accounting books and records of the Company. The Signing NBV Statement has been, and the Preliminary Closing NBV Statement and Final Closing NBV Statement shall be, prepared in accordance with GAAP, consistent with the accounting principles used in the preparation of the Company's annual audited financial statements. The Signing NBV Statement sets forth, and the Preliminary Closing NBV Statement and the Final Closing NBV Statement shall set forth, as of the date indicated therein, a true and accurate summary by financial statement caption as well as supporting detail schedules which include (A) each item included in the Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets), (B) the cost of each of such items of Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets) when purchased by the Company, (C) the accumulated depreciation and amortization applicable to each item of the Fixed Assets, the Media Inventory (excluding Finished Goods) and the NBV Prepaid Assets (excluding Cash Prepaid Assets), (D) a detailed listing of the cost of the Finished Goods and the Cash Prepaid Assets and (E) the AA Net Book Value and the Cash Prepaid Assets Net Book Value. The balance sheet of the Company, including the notes thereto, included in the Company's Form 10-Q filed with the SEC for the period ended December 26, 1998 (the "Balance Sheet Date") complies as to form in all material respects with applicable accounting requirements of the Exchange Act, and with the published rules and regulations of the SEC with respect thereto, has been prepared in accordance with GAAP (except for

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fiscal year-end adjustments) and presents fairly in all material respects the financial position of the Company as of the date indicated therein.

3.7 No Changes. Since the Balance Sheet Date, except as set forth in Section 3.7 of the Company Disclosure Schedule, there has not been, occurred or arisen any:

(a) transaction related to or otherwise affecting the Media Business, except in the ordinary course of business, consistent with past practices;

(b) expenditure or commitment for expenditure by the Company related to or otherwise affecting the Media Business exceeding \$500,000 per transaction except to the extent such expenditure or commitment for expenditure has been previously approved in writing by Komag;

(c) labor trouble or claim of wrongful discharge of which the Company has received written notice or of which the Company is aware or other unlawful labor practice or action relating to or otherwise affecting the Media Business;

(d) change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by the Company;

(e) revaluation by the Company of any of the Acquired Assets, other than depreciation and amortization as required by GAAP which is reflected on the Signing NBV Statement;

(f) increase in the salary or other compensation payable or to become payable by the Company to any of its officers, employees or advisors engaged in the Media Business or otherwise expected to become any employee of or advisor to Komag as a result of the Acquisition, or the declaration, payment or commitment or obligation of any kind for the payment, by the Company of a bonus or other additional salary or compensation to any such Person, except, in each case, in the ordinary course, consistent with past practices;

(g) sale, lease, license or other disposition of any of the assets or properties of any of the Acquired Assets, except sales of Media Inventory in the ordinary course of business, consistent with past practices;

(h) amendment or termination or violation of any distribution agreement or any material contract, agreement, Environmental Permit, lease or license to which the Company is a party which relates to the Media Business or by which any of the Acquired Assets is bound, other than termination by the Company pursuant to the terms thereof in the ordinary course of business, consistent with past practices;

(i) loan by the Company to any Transferred Employees, other than advances to Transferred Employees for travel and business expenses in the ordinary course of business, consistent with past practices;

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(j) waiver or release of any material right or claim arising from or related to the Media Business or the Acquired Assets;

(k) commencement, notice or, to the knowledge of the Company, threat of commencement of any lawsuit or proceeding against or investigation of the Company or its affairs arising from or related to the Media Business or any of the Acquired Assets;

(l) notice of any claim of ownership by a third party of any Media Intellectual Property or, notice of infringement by the Company in the operation of the Media Business of any third party's intellectual property rights;

(m) any event or condition of any character that has or could be reasonably expected to have a material adverse effect on the Acquired Assets or the Media Business; or

(n) negotiation or agreement by the Company to do any of the things described in the preceding clauses (a) through (l) (other than by negotiations with Komag and their representatives regarding the transactions contemplated by this Agreement or the Collateral Documents and acts otherwise permitted by such clauses (a) through (l)).

3.8 Tax Matters.

(a) Definition of Taxes. For the purposes of this Agreement, "Tax" or, collectively, "Taxes," means (i) any and all federal, state, province, local and foreign taxes, assessments and other governmental charges, duties, impositions and Liabilities, wherever imposed, including, without limitation, taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, goods and services, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts; (ii) any Liability for the payment of any amounts of the type described in clause (i) as a result of being a member of an affiliated, consolidated, combined or unitary group for any period; and (iii) any Liability for the payment of any amounts of the type described in clause (i) or (ii) as a result of any express or implied obligation to indemnify any other Person or as a result of any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any Liability for taxes of a predecessor entity.

(b) To the extent a failure to do so would adversely impact Komag, the Media Business, the Acquired Assets or Komag's use of the Acquired Assets, (a) the Company has timely filed within the time period for filing, or any extension granted with respect thereto, all required federal, state, province, local and foreign returns, estimates, information statements and reports ("Tax Returns") which it is required to file relating or pertaining to any and all Taxes attributable to or levied upon the Media Business or the Acquired Assets and (b) paid any and all Taxes it is required to pay in connection with the taxable periods to which such Tax Returns relate. There are (and immediately following the Closing there will be) no Liens or similar encumbrances on the Acquired Assets relating or pertaining to Taxes, except with respect to Taxes not yet due and payable. The Company has no knowledge of any basis for the assertion of any claims which, if

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adversely determined, would result in a Lien or other encumbrance on the Acquired Assets or otherwise adversely effect Komag, the Media Business or the Acquired Assets.

(c) To the extent relevant to the Acquired Assets and the Media Business, the Company shall (i) provide Komag with such assistance as may reasonably be required in connection with the preparation of any Tax Return and the conduct of any audit or other examination by any Governmental Entity or in connection with judicial or administrative proceedings relating to any Liability for Taxes and (ii) retain and provide Komag with all records or other information that may be relevant to the preparation of any Tax Returns, or the conduct of any audit or examination, or other tax proceeding. The Company shall retain all relevant documents, including prior year's Tax Returns, supporting work schedules and other records or information that may be relevant to such returns and shall not destroy or otherwise dispose of any such records, without the prior written consent of Komag, until the expiration of the applicable statute of limitations.

3.9 Restrictions on Business Activities. There is no agreement (noncompete or otherwise), commitment, judgment, injunction, order or decree to which the Company or, to the Company's knowledge, any of its officers is a party or otherwise binding upon the Company or, to the Company's knowledge, any of its officers that has or reasonably could be expected to have the effect of prohibiting or materially impairing the Acquisition, the conduct of the Media Business by Komag or the performance of the Company's obligations under this Agreement or the Collateral Documents.

3.10 Title of Properties; Absence of Liens and Encumbrances; Condition of Equipment.

(a) Section 3.10(a) of the Company Disclosure Schedule sets forth a list of all real property currently leased by the Company in which the Media Business is conducted and which is to be transferred to Komag ("Leased Real Property") and the name of the lessor, the date of the lease and each amendment thereto and the aggregate annual rental and a schedule of future monthly rental and/or other fees payable under any such lease. The leases and amendments thereto listed on the Company Disclosure Schedule set forth all of the terms and conditions of each such lease, and there are no other agreements, written or oral, between lessor and lessee with respect thereto. All such leases are in full force and effect and are valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing material default or event of material default (or event which with notice or lapse of time, or both, would constitute a material default) by the Company or, to the Company's knowledge, any other party thereto. Except as set forth in Section 3.10(a) of the Company Disclosure Schedule or as otherwise expressly set forth in such leases, there are no restrictions, preconditions, prohibitions or limitations on the ability to assign, transfer, pledge, hypothecate or otherwise convey or dispose of the interest of the Company under such leases.

(b) Section 3.10(b) of the Company Disclosure Schedule sets forth a list of all the Fixed Acquired Assets currently leased by the Company ("Leased Fixed Assets") and the name of the lessor, the date of the lease and each amendment thereto and the aggregate annual rental and a schedule of future monthly rental and/or other fees payable under any such lease. The leases and

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amendments thereto listed on the Company Disclosure Schedule set forth all of the terms and conditions of each such lease, and there are no other agreements, written or oral, between lessor and lessee with respect thereto. All such leases are in full force and effect and are valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing material default or event of material default (or event which with notice or lapse of time, or both, would constitute a material default) by the Company or, to the Company's knowledge, any other party thereto. Except as set forth on Section 3.10(b) of the Company Disclosure Schedule or as otherwise expressly set forth in such leases, there are no restrictions, preconditions, prohibitions or limitations on the ability to assign, transfer, pledge, hypothecate or otherwise convey or dispose of the interest of the Company under such leases.

(c) Section 3.10(c) of the Company Disclosure Schedule sets forth all of the Fixed Acquired Assets owned by the Company included within the Acquired Assets, other than any Fixed Acquired Assets which (i) are not material to the Media Business and (ii) are, individually, less than \$5,000 in value. Except as set forth in Section 3.10(c) of the Company Disclosure Schedule, there are no restrictions, prohibitions, or limitations on the ability to transfer, convey or dispose of any of the Fixed Acquired Assets. All Fixed Acquired Assets and all Leased Fixed Assets currently being used, or to be used, in the Media Business, or used in the Media Business within six (6) months prior to the date hereof, are in good operating condition, subject to normal wear and tear and have been reasonably maintained.

(d) The Company has good and valid title to, or, in the case of leased properties and assets, valid and enforceable leasehold interests in, all of the Acquired Assets, free and clear of any Liens, except for Permitted Liens or as otherwise reflected in Section 3.10(d) of the Company Disclosure Schedule. All of the Acquired Assets are reflected on the Signing NBV Statement or were acquired since the date of the Signing NBV Statement. All of the properties and assets owned, leased or licensed by the Company included within the Acquired Assets are adequate to conduct the Media Business as now conducted. Upon the consummation of the Acquisition, Komag shall have good and valid title to, or in the case of leased properties and assets, valid and enforceable leasehold interests in, all of the Acquired Assets, free and clear of any Liens, other than Permitted Liens (provided, that, any Liens which are Permitted Liens and which are required to be discharged prior to or concurrently with the Closing shall have been removed prior to or concurrently with the Closing) or as otherwise reflected in Section 3.10(d) of the Company Disclosure Schedule.

(e) To the knowledge of the Company, there are no, and at the time of Closing there will not be, any material physical or mechanical defects of the Leased Real Property. To the knowledge of the Company, except as set forth in Section 3.10(e) of the Company Disclosure Schedule, the buildings, structures and improvements located on the Leased Real Property, including, without limitation, the roofs, parking lots, plumbing, heating, air conditioning, water, sewer, gas, electrical and life safety systems are in good condition and repair and are in compliance in all material respects with applicable laws. The Company has no outstanding claims or Liabilities in respect of the construction thereof. All public utilities, including water, electric, sewage or subsurface disposal systems, required for the normal operation of the Media Business as currently conducted, connect into the Leased Real Property through adjoining public roads or, if they pass

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through adjoining private land, do so in accordance with valid permits or easements, all installation and connection charges due and payable with respect thereto have been paid in full or are provided for and all such utilities are sufficient for the operation of the Media Business as currently conducted. To the knowledge of the Company, all improvements forming a part of any of the Leased Real Property are located wholly within the boundaries of the Leased Real Property and do not encroach upon any registered or unregistered easements or rights of way affecting any of the Leased Real Property except with the agreement or consent of the owner of the affected property. Except as set forth in Section 3.10(e) of the Company Disclosure Schedule, there are no pending or, to the knowledge of the Company, threatened condemnations, eminent domain, expropriation, environmental, zoning, land-use or similar proceedings that would affect all or any portion of the Leased Real Property nor has the Company received notice of any proceedings to impose any new taxes or operating restrictions upon any of the Leased Real Property. The Company shall notify Komag promptly of any such proceedings of which the Company becomes aware prior to the Closing. To the knowledge of the Company, the Leased Real Property complies in all material respects with any private covenant, conditions, restrictions, and approvals applicable thereto.

(f) On the Closing Date there will be no outstanding written or oral contracts made by the Company for any alterations or improvements on or to the Leased Real Property, which have not been fully paid, and the Company shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the Leased Real Property prior to the Closing Date.

3.11 Intellectual Property.

(a) Intellectual Property Contracts.

(i) The contracts, licenses, sublicenses and agreements listed on Section 3.11(a)(i) of the Company Disclosure Schedule include all material contracts, licenses and agreements pursuant to which any Person, including any Affiliate of the Company, has licensed or transferred any Intellectual Property to or from the Company related to magnetic disk technology, including the design or manufacture of any products of the Media Business.

(ii) The contracts, licenses, sublicenses and agreements listed on Section 3.11(a)(ii) of the Company Disclosure Schedule include all contracts, licenses and agreements pursuant to which any Person, including any Affiliate of the Company, has licensed any Intellectual Property to the Company related to magnetic disk technology, including the design or manufacture of any products of the Media Business, which are to be assigned to the Company under the terms of this Agreement. All contracts, licenses, sublicenses and agreements listed on Section 3.11(a)(ii)

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of the Company Disclosure Schedule are in full force and effect. Neither the execution nor delivery of the Agreement or any of the Collateral Documents nor the consummation of the transactions contemplated hereby or thereby will violate or result in the breach, modification, cancellation, termination, or suspension of the contracts, licenses, sublicenses and agreements listed on Section 3.11(a)(ii) of the Company Disclosure Schedule. The Company is in compliance with, and has not breached any term of, the contracts, licenses and agreements listed on Section 3.11(a)(ii) of the Company Disclosure Schedule, and, to the knowledge of the Company, all other parties to the contracts, licenses, sublicenses and agreements listed on Section 3.11(a)(ii) of the Company Disclosure Schedule are in compliance with, and have not breached any term of, such contracts, licenses, sublicenses and agreements. Following the Closing Date, Komag will be permitted to exercise all of the Company's rights under the contracts, licenses, sublicenses and agreements listed in Section 3.11(a)(ii) of the Company Disclosure Schedule without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Company would otherwise be required to pay.

(iii) Except as listed on Section 3.11(a)(iii) of the Company Disclosure Schedule, there are no contracts, licenses, sublicenses and agreements between the Company and any other Person with respect to the Media Intellectual Property, including those listed on Section 3.11(a)(ii) of the Company Disclosure Schedule, under which there is any dispute known to the Company regarding the scope of such contract, license, sublicense or agreement, or performance under such contract, license, sublicense or agreement, including with respect to any payments to be made or received by the Company thereunder.

(b) Intentionally Omitted.

(c) Infringement of Third Party Intellectual Property. Except as set forth in Section 3.11(c) of the Company Disclosure Schedule, the Company has not received notice from any Person claiming that such operation or any act, product, technology or service of the Media Business infringes or misappropriates the Intellectual Property of any Person or constitutes unfair competition or trade practices under the laws of any jurisdiction (nor is the Company aware of any basis therefor).

(d) Restrictions of Use of Media Intellectual Property. No Media Intellectual Property, or product, technology or service of the Media Business, is subject to any proceeding or outstanding decree, order, judgment, or stipulation restricting in any manner the use, transfer or licensing thereof by the Company or which may affect the validity, use or enforceability of such Media Intellectual Property.

(e) Protection of Media Intellectual Property. The Company has taken all steps that are reasonable under the circumstances to protect the confidentiality and trade secret status of the Media Business's confidential information and trade secrets or any trade secrets or confidential information of third parties provided to the Company related thereto, and, without limiting the foregoing, the Company has and enforces a policy requiring each Employee and contractor to execute proprietary information and confidentiality agreements substantially in the Company's standard forms and all current and former Employees and contractors of the Company conducting the Media Business have executed such an agreement. The Company knows of no basis on which it could be claimed that the Company has failed to protect the confidentiality of any material confidential information of the Company relating to the Media Business.

(f) No Obligations Resulting from Transaction. Neither this Agreement nor the transactions contemplated by this Agreement, including the assignment to Komag by operation of

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law or otherwise of any contracts or agreements to which the Company is a party, will result in (i) Komag's granting to any third party any right to or with respect to any Intellectual Property or Intellectual Property right owned by, or licensed to, either of them, (ii) Komag's being bound by, or subject to, any non-compete or other restriction on the operation or scope of their respective businesses or (iii) Komag's being obligated to pay any royalties or other amounts to any third party in excess of those payable by Komag prior to the Closing.

(g) Year 2000 Compliant. Section 3.11(g) of the Company Disclosure Schedule sets forth the Company's Year 2000 Project Schedules with respect to the Media Business which reflect the current status of the Company's efforts to address operating and product line issues related to the "Year 2000 Issue".

(h) Effect of Transaction. The consummation of the transactions contemplated by this Agreement will not result in the loss of, or otherwise adversely affect, any ownership rights of the Company in any Media Intellectual Property or result in the breach or termination of any license, contract or agreement to which the Company is a party respecting any material Media Intellectual Property.

3.12 Agreements, Contracts and Commitments.

(a) Except as set forth in Section 3.12(a) of the Company Disclosure Schedule, the Company does not have any continuing obligations under, is not a party to or is not bound by:

(i) any collective bargaining agreements, or any contract with or commitment to any trade unions, employee bargaining agent or affiliated bargaining agent (collectively, "labor representatives") which relate to Employees employed in connection with, or providing services to, the Media Business, and the Company has not conducted any negotiations with respect to any such future contracts or commitments;

(ii) any bonus, deferred compensation, pension, profit sharing or retirement plans, or any other employee benefit plans or arrangements which relates to Employees employed in connection with, or providing services to, the Media Business;

(iii) any employment or consulting agreement, contract or commitment with an Employee or individual consultant employed by, or providing services to, the Media Business or consulting agreement, contract or commitment with a firm or other organization relating to the Media Business;

(iv) any agreement or plan, including any share option plan, share appreciation rights plan or share purchase plan which relates to any Employee employed by, or providing services to, the Media Business;

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(v) any fidelity or surety bond or completion bond relating to, or arising in connection with, the Acquired Assets or the Media Business;

(vi) any lease of real or personal property relating to, or arising in connection with, the Acquired Assets or the Media Business;

(vii) any agreement of indemnification, guaranty or environmental corrective action or clean up obligation relating to, or arising in connection with, the Acquired Assets or the Media Business;

(viii) any agreement, contract or commitment containing any covenant limiting the freedom of the Company to engage in any line of business or to compete with any Person, relating to, or arising in connection with, the Acquired Assets or the Media Business;

(ix) any agreement, contract or commitment relating to capital expenditures and involving future payments in excess of \$500,000 arising in connection with the Acquired Assets or the Media Business;

(x) any agreement, contract or commitment relating to the disposition of any Acquired Assets or the acquisition of material assets or any interest in any business enterprise outside the ordinary course of business, consistent with past practices, relating to, or arising in connection with, the Acquired Assets or the Media Business;

(xi) any mortgages, indentures, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit arising in connection with, the Acquired Assets or the Media Business;

(xii) any Purchase Order or contract for the purchase of raw materials relating to, or arising in connection with, the Acquired Assets or the Media Business;

(xiii) any distribution, joint marketing or development agreement relating to, or arising in connection with, the Acquired Assets or the Media Business;

(xiv) any other agreement, contract or commitment that involves \$100,000 or more relating to, or arising in connection with, the Acquired Assets or the Media Business; or

(xv) any agreement, contract or commitment that is not cancelable without material penalty within thirty (30) days relating to, or arising in connection with, the Acquired Assets or the Media Business.

(b) Except as noted in Section 3.12(b) of the Company Disclosure Schedule, the Company has not breached, violated or defaulted under, or received notice that it has breached, violated or defaulted under, any of the material terms or conditions of any agreement, contract or commitment required to be set forth in Section 3.12(a) of the Company Disclosure Schedule (collectively, "Contracts" and each, a "Contract"), nor, to the Company's knowledge, are there any events or circumstances that would in the Company's opinion be reasonably likely to give rise to such a breach, violation or default with the lapse of time, giving of notice or both. Each Contract is

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in full force and effect and, except as otherwise disclosed in Section 3.12(b) of the Company Disclosure Schedule, is not subject to any default thereunder of which the Company is aware by any party obligated to the Company pursuant thereto.

3.13 Interested Party Transactions. Except as set forth in Section 3.13 of the Company Disclosure Schedule, to the Company's knowledge, no officer or director of the Company (nor any spouse or member of the immediate family of any of such Persons, or any trust, partnership or corporation in which any of such Persons has or has had a material interest), has or had, directly or indirectly (a) any legal or beneficial interest in any Person that sells or furnishes to the Company any goods or services relating to the Media Business or (b) any legal or beneficial interest in any Contract set forth in Section 3.12 of the Company Disclosure Schedule; provided, that passive ownership of no more than five percent (5%) of the outstanding stock of a publicly traded corporation shall not be deemed an "interest in any entity" for purposes of this Section 3.13.

3.14 Governmental Authorization. Section 3.14 of the Company Disclosure Schedule accurately lists each material consent, license, permit, grant or other authorization issued to the Company by a Governmental Entity (a) pursuant to which the Company currently operates or holds any interest in any of the Acquired Assets or (b) which is required for the operation of the Media Business or the holding of any interest in the Acquired Assets (collectively, "Authorizations"). All Authorizations are in full force and effect and constitute all Authorizations required to permit the Company to operate or conduct the Media Business as currently conducted or to hold any interest in the Acquired Assets.

3.15 Litigation. Except as set forth in Section 3.15 of the Company Disclosure Schedule, there is no action, suit, claim, proceeding or arbitration of any nature pending or, to the knowledge of the Company, threatened against the Media Business, any of the Acquired Assets or any of its officers, directors or stockholders in respect of the Media Business or the Acquired Assets. There is no investigation pending or, to the knowledge of the Company, threatened against the Media Business, the Acquired Assets or any of its officers, directors or stockholders in respect of the Media Business or the Acquired Assets by or before any Governmental Entity. No Governmental Entity has challenged or questioned the legal right of the Company to manufacture, offer or sell any of the products of the Media Business in the present manner or style thereof.

3.16 Accounts Receivable. Except as set forth in Section 3.16 of the Company Disclosure Schedule, the Company has no Accounts Receivable which relate to the Media Business other than intercompany Accounts Receivable.

3.17 Inventories. All of the Media Inventory are reflected on the Signing NBV Statement and will be reflected on the Preliminary Closing NBV Statement and the Final Closing NBV Statement as of the dates indicated therein. All such Media Inventory was purchased, acquired or produced in the ordinary course of business, consistent with past practices, and in a manner consistent with the Company's regular inventory practices and are set forth on the Company's books and records in accordance with GAAP. The presentation of the Media Inventory on the Signing NBV Statement was, and on the Preliminary Closing NBV Statement and the Final Closing NBV

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Statement will be, thereon in accordance with GAAP, consistent with the accounting principles used in the preparation of the Company's audited financial statements. The Media Inventory as presented on the Signing NBV Statement is, and on the Preliminary Closing NBV Statement and the Final Closing NBV Statement will be, stated at the lower of cost (determined using the first-in, first-out method) or net realizable value, and such value reflects applicable reserves and write-downs for defective or obsolete items to the extent GAAP would so provide. The reserves against such Media Inventory have been established in accordance with GAAP. Except as set forth in Section 3.17 of the Company Disclosure Schedule, the Company does not hold any items of Media Inventory on consignment or have title to any items of Media Inventory in the possession of others, except items of Media Inventory in shipment to the Company. All of items of such Media Inventory are and, from the date hereof until the Closing Date will be, of a quality and quantity that are salable in the ordinary course of business, consistent with past practices (except for damaged, defective or obsolete Inventory which, as of the Closing Date, will not exceed \$10,000).

3.18 Minute Books. The minutes of the Company provided to counsel for Komag contain, to the extent applicable to the Media Business or the Acquired Assets, an accurate summary of all meetings of directors (or committees thereof) of the Company or actions by written consent of such directors and committees since March 1, 1998.

3.189 Brokers' and Finders' Fees. The Company has not incurred, nor will it incur, directly or indirectly, any Liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

3.20 Employees; Employee Plans and Compensation.

(a) Schedule. Section 3.20(a) of the Company Disclosure Schedule contains an accurate and complete list of each Employee Plan and each material Employee Agreement. The Company does not have any plan or commitment, whether legally binding or not, to establish any new Employee Plan or Employee Agreement, to modify any Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Employee Plan or Employee Agreement to the requirements of any applicable law, or to enter into any Employee Plan or Employee Agreement, nor does it have any intention or commitment to do any of the foregoing.

(b) Documentation. The Company has made available to Komag (i) correct and complete copies of all documents embodying each Employee Plan and each Employee Agreement including all amendments thereto and copies of all forms of agreement and enrollment used therewith; (ii) the most recent annual actuarial valuations, if any, prepared for each Employee Plan; (iii) the most recent summary plan description, together with the most recent summary of material modifications, if any, required under ERISA with respect to each Employee Plan, (iv) all IRS determination letters and rulings relating to Employee Plans and copies of all applications and correspondence to or from the IRS or the Department of Labor ("DOL") with respect to any Employee Plan, (v) all communications material to any Employee or Employees relating to any Employee Plan and any proposed Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting

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schedules or other events which would result in any material liability to the Company; and (vi) each Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code that has either received a favorable determination, opinion, notification or advisory letter from the IRS with respect to each such Plan as to its qualified status under the Code, including all amendments to the Code effected by the Tax Reform Act of 1986 and subsequent legislation, or has remaining a period of time under applicable Treasury regulations or IRS pronouncements in which to apply for such a letter and make any amendments necessary to obtain a favorable determination as to the qualified status of each such Employee Plan.

(c) Employee Plan Compliance. Except as set forth in Section 3.20(c) of the Company Disclosure Schedule, (i) the Company has performed all material obligations required to be performed by it under each Employee Plan and each Employee Plan has been established and maintained in all material respects in accordance with its terms and in compliance with all applicable laws, statutes, orders, rules and regulations including, without limitation, ERISA and the Code; (ii) there are no audits, inquiries or proceedings pending or, to the knowledge of the Company or any ERISA Affiliate, threatened by the IRS or DOL with respect to any Employee Plan and (iii) neither the Company nor any ERISA Affiliate is subject to any penalty or tax with respect to any Employee Plan under Section 402(i) of ERISA or Sections 4975 through 4980 of the Code.

(d) Pension Plans. The Company does not now, nor has it ever, maintained, established, sponsored, participated in or contributed to, any Pension Plan affecting any of the Employees which is subject to Part 3 of Subtitle B of Title I of ERISA, Title IV of ERISA or Section 412 of the Code.

(e) Multiemployer Plans. At no time has the Company contributed to or been requested to contribute to any Multiemployer Plan.

(f) No Post-Employment Obligations. No Employee Plan provides, or has any Liability to provide, life insurance, medical or other employee benefits to any Transferred Employee upon his or her retirement or termination of employment for any reason, except as may be required by statute, and the Company has not represented, promised or contracted (whether in oral or written form) to any Transferred Employee (either individually or to Transferred Employees as a group) that such Transferred Employee(s) would be provided with life insurance, medical or other employee welfare benefits upon their retirement or termination of employment, except to the extent required by statute.

(g) Effect of Transaction. Except as set forth on Section 3.20(g) of the Disclosure Schedule, the execution of this Agreement and the Collateral Documents and the consummation of the transactions contemplated hereby and thereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee. No payment or benefit which will or may be made by the Company or Komag or any of their respective Affiliates with respect to any

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Employee will be characterized as a "parachute payment," within the meaning of Section 280G(b)(2) of the Code.

(h) Employment Matters. The Company (i) is in compliance in all material respects with all applicable laws, rules and regulations respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to Employees; (ii) has withheld all amounts required by law or by agreement to be withheld from the wages, salaries and other payments to Employees; (iii) is not liable for any arrears of wages or any Taxes or any penalty for failure to comply with any of the foregoing; and (iv) is not liable for any payment to any trust or other fund or to any Governmental Entity, with respect to unemployment compensation benefits, social security or other benefits for Employees (other than routine payments to be made in the ordinary course of business, consistent with past practices).

(i) Labor. No work stoppage or labor strike against the Company is pending or, to the knowledge of the Company, threatened with respect to the Media Business or involving or relating to any of the current Employees. The Company is not involved in or threatened with any labor dispute, grievance or litigation relating to labor, safety or discrimination matters involving any Employee, including charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, result in Liability to the Company. The Company has not engaged in any unfair labor practices within the meaning of the National Labor Relations Act with respect to the Media Business or involving or relating to any of the current Employees which could, individually or in the aggregate, directly or indirectly result in a Liability to the Company. The Company is not presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement, contract with or commitment to any labor representatives with respect to the Media Business or involving or relating to any of the current Employees, and the Company has not conducted negotiations with respect to any such future contracts or commitments; no labor representatives hold bargaining rights with respect to any Employees; and there are no current or, to the knowledge of the Company, threatened attempts to organize or establish any trade union or employee association with respect to the Company involving or relating to the Media Business or any of the current Employees. The Company has provided Komag with all information Komag has requested with respect to the names, date of hire or compensation of Employees.

3.21 Insurance. All of the Acquired Assets that are of an insurable nature are insured in amounts normally insured against by Persons carrying on the same classes of business as the Media Business, and the Company is adequately covered against accident, damage, injury, third party public liability, loss of profits and other risks normally insured against by Persons carrying on the same classes of business as the Media Business. All such policies are, and will at Closing be, in full force and effect and nothing has been done or omitted to be done by the Company which would make any policy of insurance void or voidable. All of such insurance policies are listed in Section 3.21 of the Company Disclosure Schedule. There is no material claim by the Company pending under any of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid, and the Company is otherwise in material compliance with the terms of such policies and bonds (or other policies and bonds providing substantially similar insurance coverage). The Company has no knowledge of any threatened termination of any of such policies.

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3.22 Environmental Matters.

(a) Underground Tanks. No underground storage tank, dump, landfill or waste pile containing or used to dispose or store any Hazardous Materials is present in, on or under any Media Business Facility, including the land and the improvements, ground water and surface water thereof.

(b) Hazardous Materials Activities. Except as set forth in Section 3.22(b) of the Company Disclosure Schedule, at no time prior to the Closing has the Company transported (or arranged for the transport), stored, used, manufactured, disposed of, released, leaked, emitted or entered into the atmosphere, ground, soil, surface water, ground water or sewer system or exposed its employees or others to Hazardous Materials in violation of any Environmental Law. No Pre-Closing Hazardous Materials Activities have been conducted in violation of any Environmental Laws.

(c) Permits. The Company currently holds all environmental approvals, permits, licenses, clearances and consents (the "Environmental Permits") necessary for the conduct of its Hazardous Material Activities as such activities are currently being conducted. All such Environmental Permits are listed in Section 3.22(c) of the Company Disclosure Schedule.

(d) Environmental Liabilities. Except as set forth in Section 3.22(d) of the Company Disclosure Schedule, the Company is not in material violation of any Environmental Laws applicable to the Media Business, and neither the Company nor any of its Employees has engaged in any conduct that has given or will give rise to any Environmental Claims, losses or Liabilities under any such laws for which Komag may be held responsible. Except as set forth in Section 3.22(d) of the Company Disclosure Schedule, the Company has not received any written or oral communication from any Governmental Entity or any other Person alleging that the Company is not currently in compliance in any material respect with, or has a Liability under (including being a potentially responsible party or allegedly liable for costs associated for remediation of any site), any such laws in connection with the Media Business. Except as set forth in Section 3.22(d) of the Company Disclosure Schedule, no action, proceeding, revocation proceeding, amendment procedure, writ, injunction or claim is pending, or, to the knowledge of the Company, threatened concerning any Environmental Permit, Hazardous Material or any Pre-Closing Hazardous Materials Activity of the Company. Except as set forth in Section 3.22(d) of the Company Disclosure Schedule, the Company is not aware of any fact or circumstance which could involve the Company in any environmental litigation or impose upon the Company any material environmental Liability.

(e) Offsite Hazardous Material Disposal. The Company has transferred or released (or arranged for the transfer or release of) Hazardous Materials only to those treatment, storage, transfer or disposal sites described in Section 3.22(e) of the Company Disclosure Schedule ("Disposal Sites") and no action, proceeding, liability or claim exists or, to the knowledge of the Company, is threatened against any such listed disposal site or against or involving the Company with respect to any transfer or release of Hazardous Materials to such Disposal Sites.

(f) Environmental Reporting. The Company has not, with respect to any Media Business Facility or Acquired Assets, filed and does not intend to file any notice or report under any

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Environmental Laws reporting a violation of any Environmental Laws or any Release of Hazardous Materials to the environment.

(g) Asbestos Containing Material. Any asbestos-containing material which is known to the Company to be on or part of any Leased Real Property is in good repair according to the current standards and practices governing such material, and its presence or condition does not violate any applicable Environmental Laws.

(h) Environmental Records. The Company has delivered to Komag or made available for inspections by Komag all records pertaining to the Pre-Closing Hazardous Materials Activities associated with the Acquired Assets, the Media Business or any Media Business Facility and all draft or final non-privileged environmental audits and environmental assessments relating to the Media Business or of any Media Business Facility conducted at the request of, or otherwise in the possession or control of the Company.

3.23 Compliance with Laws. The Company and its officers and employees have complied in all material respects with, are not in violation in any material respect of, and have not received any notices of violation with respect to, any foreign, federal, state, province or local statute, law or regulation with respect to the conduct of the Media Business or the ownership or operation of the Acquired Assets.

3.24 Complete Copies of Materials. The Company has delivered to Komag true and complete copies of each agreement, contract, commitment or other document referred to in the Company Disclosure Schedule and that has been requested by Komag or its counsel.

3.25 Suppliers. Section 3.25 of the Company Disclosure Schedule sets forth a true and complete list of the names and addresses of the ten (10) suppliers which each account for the largest net sales to the Company relating to the Media Business. There exists no actual termination or cancellation of the business relationship of the Company with any supplier or group of suppliers listed in Section 3.25 of the Company Disclosure Schedule.

3.26 No Insolvency. The Company will not be rendered insolvent by the sale, transfer and assignment of the Acquired Assets pursuant to the terms of this Agreement.

3.27 Private Placement. The Company is acquiring the Sale Shares for investment for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof. The Company acknowledges that the Sale Shares to be received are characterized as "Restricted Securities" and must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. The Company is aware of the provisions of Rule 144 promulgated under the Securities Act. Representatives of the Company have had the opportunity to ask questions of and receive answers from Komag or a Person acting on the Company's behalf concerning the terms and conditions of this transaction as well as to obtain any information requested by such representatives. The Company is an "Accredited Investor" as that term is defined in Rule 501 of Regulation D, promulgated by the SEC under the Securities Act.

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3.28 Registration Statement Information. The information supplied by the Company for inclusion in the registration statement contemplated by the Registration Rights Agreement, does not contain, and will not contain at the effective date of such registration statement, any untrue statement of material fact or omit, and will not omit at the effective date of such registration statement, to state any material fact necessary in order to make the statements therein not misleading.

3.29 Representations Complete. To the knowledge of the Company, none of the representations or warranties made in this Article III (as modified by the Company Disclosure Schedule), nor any statement made in any Collateral Document or any Section of the Company Disclosure Schedule furnished by or on behalf of the Company heretofore pursuant to this Agreement contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading. To the knowledge of the Company, there is no event, fact or condition that materially and adversely affects the Media Business or the Acquired Assets that has not been set forth in this Agreement or in the Company Disclosure Schedule.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF KOMAG

4.1 Komag represents and warrants to the Company as of the date hereof, and as of the Closing Date, except as specifically set forth in the disclosure schedule accompanying this Agreement (referring to the appropriate section numbers) (the "Komag Disclosure Schedule") as follows:

Organization. Komag is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Komag has the corporate power and authority to own its properties and to carry on its business as now being conducted and as contemplated to be conducted. Komag is duly qualified to do business and in good standing as a foreign corporation under the laws of each jurisdiction in which the failure to be so qualified could have a material adverse effect on Komag. Komag has delivered to the Company or its counsel true and correct copies of its Certificate of Incorporation and Bylaws, which have not been amended since July 22, 1998.

4.2 Capital Structure of Komag.

(a) The authorized capital of Komag consists of 150,000,000 shares of Common Stock, of which 53,920,660 shares are issued and outstanding as of the date hereof, and 1,000,000 shares of Preferred Stock, none of which shares are issued and outstanding as of the date hereof. All of the issued and outstanding capital stock of Komag have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any preemptive right or other rights to subscribe for or purchase shares created by statute, the Certificate of Incorporation or Bylaws of Komag or any agreement to which Komag is a party or by which it is bound. Komag has reserved 18,140,000 shares of Common Stock for issuance to employees and consultants pursuant to the 1987 Incentive Stock Option Plan, of which 5,754,874 shares are subject

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to outstanding, unexercised options; Komag has reserved 6,100,000 shares of Common Stock for issuance to employees and consultants pursuant to the 1997 Supplemental Stock Option Plan, of which 5,102,340 shares are subject to outstanding, unexercised options; and Komag has reserved 7,400,000 shares of Common Stock for issuance to employees and consultants pursuant to the 1988 Employee Stock Purchase Plan, of which 3,284,927 shares remain available for sale. Except for the options described in this Section 4.2(a) or as set forth on Section 4.2(a) of the Komag Disclosure Schedule, there are no options, warrants, calls, rights, commitments or agreements of any character, written or oral, to which Komag is a party or by which it is bound obligating Komag to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of Komag or to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call, right, commitment or agreement.

(b) The Sale Shares to be issued pursuant to the Acquisition will be, at the Closing Date, duly authorized, validly issued, fully paid, nonassessable, and not subject to any call, preemptive or similar rights.

4.3 Authority. Komag has all requisite corporate power and authority to enter into this Agreement and each of the Collateral Documents to which it is a party, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and each of the Collateral Documents to which it is a party by Komag and the consummation of the transactions contemplated hereby and thereby by Komag have been duly authorized by all necessary corporate action on the part of Komag. This Agreement has been, and each of the Collateral Documents to which it is a party will be at the Closing, duly executed and delivered by Komag and, assuming the due authorization, execution and delivery by the other parties hereto and thereto, upon execution, will constitute valid and binding obligations of Komag, enforceable in accordance with their respective terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and to rules of law governing specific performance, injunctive relief or other equitable remedies.

4.4 No Conflict. The execution and delivery of this Agreement and each of the Collateral Documents to which it is a party by Komag does not, and, the consummation of the transactions contemplated hereby and thereby by Komag will not, Conflict with (a) any provision of the Certificate of Incorporation or Bylaws of Komag, (b)(i) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which Komag is subject or by which it is bound (other than any mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which Komag is subject or by which it is bound set forth on Section 4.4(b)(ii) of the Komag Disclosure Schedule) or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which Komag is subject or by which it is bound set forth on Section 4.4(b)(ii) of the Komag Disclosure Schedule or (c) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Komag or its properties or assets, assuming, in each case, compliance with (x) any applicable requirements under the HSR Act, (y) any applicable requirements under the

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Exchange Act and (z) such other matters set forth in Section 4.4(z) of the Komag Disclosure Schedule.

4.5 Consents. No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person, including a party to any agreement with Komag (so as not to trigger any Conflict), is required by or with respect to Komag in connection with the execution and delivery of this Agreement or any of the Collateral Documents to which it is a party or the consummation of the transactions contemplated hereby or thereby, except for such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings (a) as may be required under the HSR Act, (b) as may be required under applicable federal and state securities laws, (c) as may be set forth in Section 4.5 of the Komag Disclosure Schedule or (d) which if not obtained or made, would not materially impair the ability of Komag to consummate the transactions contemplated by this Agreement or the Collateral Documents.

4.6 SEC Documents, Komag Financial Statements. Komag has furnished or made available to the Company true and complete copies of all reports or registration statements filed by it with the SEC under the Exchange Act, for all periods subsequent to December 28, 1997, all in the form so filed (all of the foregoing being collectively referred to as the "Komag SEC Documents"). As of their respective filing dates, the Komag SEC Documents complied in all material respects with the requirements of the Exchange Act, and none of the Komag SEC Documents contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent corrected by a subsequently filed Komag SEC Document. The financial statements of Komag, including the notes thereto, included in the Komag SEC Documents (the "Komag Financial Statements"), comply as to form in all material respects with applicable accounting requirements of the Exchange Act, and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except as may be indicated in the notes thereto), and present fairly in all material respects the financial position, the results of operation and, where applicable, the cash flows and changes in financial position of Komag as of the dates and during the periods indicated therein (subject, in the case of unaudited statements, to normal audit adjustments).

4.7 No Material Adverse Change. Since September 27, 1998, Komag has conducted its business in the ordinary course and, other than as disclosed in the Komag SEC Documents filed with the SEC, there has not occurred (a) any material adverse change in the business, financial condition or results of operation of Komag or (b) any damage to or destruction or loss of any assets of Komag (whether or not covered by insurance) that materially and adversely affects the financial condition or business of Komag.

4.8 Litigation. Except as set forth in Section 4.8 of the Komag Disclosure Schedule, there is no action, suit, claim, proceeding or arbitration of any nature pending or, to the knowledge of Komag, threatened against Komag or any of its properties or any of its officers, directors or stockholders in respect of Komag. There is no investigation pending or, to the knowledge of Komag, threatened against Komag or any of its assets or properties or any of its officers, directors or stockholders in respect of Komag by or before any Governmental Entity. No Governmental Entity

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has challenged or questioned the legal right of Komag to manufacture, offer or sell any of its products in the present manner or style thereof.

4.9 Brokers' Fees. Komag has not incurred, nor will it incur, directly or indirectly, any Liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

ARTICLE V

CONDUCT PRIOR TO THE CLOSING

5.1 Conduct of Business of the Company. During the period from the date of this Agreement and continuing until the earlier of (i) the termination of this Agreement and (ii) the Closing, the Company agrees (except to the extent that Komag shall otherwise consent in writing) to carry on the Media Business in the normal and ordinary course, to pay the debts related thereto including Accounts Payable and similar obligations in the normal and ordinary course, consistent with past practice, to use all commercially reasonable efforts to preserve intact the Media Business organization, to keep available the services of the present Employees (except Non-Offered Employees) and to preserve its relationships with suppliers and others having business dealings with it, all with the goal of preserving unimpaired the Acquired Assets and the Media Business at the Closing, together with the goodwill associated therewith. The Company shall promptly notify Komag of any event or occurrence or emergency not in the ordinary course of business and any material event involving the Acquired Assets or the Media Business. Except as expressly contemplated by this Agreement or disclosed in Section 5.1 of the Company Disclosure Schedule, the Company shall not, without the prior written consent of Komag (which consent shall not be unreasonably withheld):

(a) Waive or release any material right or claim arising from or related to the Media Business or the Acquired Assets;

(b) Enter into any commitment or transaction involving, relating to or affecting the Acquired Assets or the Media Business not in the ordinary course of business;

(c) Make any expenditures or commitments for expenditures for the acquisition of Inventory or other assets in excess of \$500,000 per transaction to the extent that such expenditures or commitments for expenditures involves, relates to or affects the Acquired Assets or Media Business;

(d) Transfer to any Person any rights to the Media Intellectual Property which are to be included within the Acquired Assets or to be licensed to Komag pursuant to the License Agreement; provided that the Company may license any Media Intellectual Property to be licensed to Komag pursuant to the License Agreement to the extent that so doing would not materially adversely affect Komag or the operation of the Acquired Assets or the Media Business following the Closing;

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(e) Enter into or amend any agreements pursuant to which any other Person is granted marketing, distribution or similar rights of any type or scope with respect to any products of the Company produced in connection with the Media Business;

(f) Amend or otherwise modify in any material respect (or agree to do so), or violate the terms of, any of the agreements, contracts, licenses, permits, leases or Environmental Permits set forth or described in the Company Disclosure Schedule;

(g) Commence or settle any litigation that could reasonably be expected to adversely affect the Acquired Assets or Media Business;

(h) Acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof that includes assets that would constitute Acquired Assets under this Agreement, or otherwise acquire or agree to acquire any assets that would constitute Acquired Assets under this Agreement, other than in the ordinary course of business;

(i) Sell, lease, license, grant any Lien on or otherwise dispose of or encumber any of the Acquired Assets, except for intercompany sale of Media Inventory in the ordinary course of business;

(j) Adopt or amend any employee benefit plan, or enter into any employment contract or extend employment offers (in each case only to the extent affecting Employees), pay or agree to pay any special bonus or special remuneration to any Employee, or increase the salaries or wage rates of the Employees, except, in each case, in the ordinary course of business, consistent with past practices or to the extent required by law or to conform any Employee Benefit Plan or Employee Agreement to the requirements of applicable law;

(k) Revalue any of the Acquired Assets, except as expressly required by the Agreement;

(l) To the extent it may affect the Acquired Assets, the Media Business or the Liability of Komag for Taxes under the terms of this Agreement, make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(m) Enter into any strategic alliance, development or joint marketing agreement involving, relating to or affecting the Acquired Assets or the Media Business;

(n) Fail to comply in all material respects with any laws, rules or regulations applicable to the Acquired Assets or the Media Business; or

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(o) Take, or agree in writing or otherwise to take, any of the actions described in Sections 5.1(a) through (n) above, or any other action that would prevent the Company from performing or cause the Company not to perform its covenants hereunder or under the Collateral Documents.

5.2 Review of Capital Budget/Spending Plan. The Company has provided to Komag and its representatives for their review all current capital budgets and spending plans relating to the Media Business. As reasonably practicable following the date hereof, the Company shall provide to Komag and its representatives for their review all updates or amendments to its current capital budgets and spending plans relating to the Media Business.

5.3 No Solicitation. Until the earlier of (i) the Closing and (ii) the date of termination of this Agreement pursuant to the provisions of Section 9.1 hereof, the Company will not (nor will the Company permit any of the Company's officers, directors, agents, representatives or affiliates to) directly or indirectly, take any of the following actions with any party other than Komag and its designees: (a) solicit, encourage, conduct discussions with or engage in negotiations with any Person, other than Komag, relating to the possible acquisition of all or any part of the Media Business (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), (b) provide information with respect to it to any Person, other than Komag, relating to possible acquisition of all or any part of the Media Business (whether by way of merger, purchase of capital stock, purchase of assets or otherwise), (c) enter into an agreement with any Person, other than Komag, providing for the possible sale of all or any part of the Media Business (whether by way of merger, purchase of capital stock, purchase of assets or otherwise) or (d) make or authorize any statement, recommendation or solicitation in support of any possible sale of all or any part of the Media Business (whether by way of merger, purchase of capital stock, purchase of assets or otherwise) to any Person, other than by Komag.

ARTICLE VI

ADDITIONAL AGREEMENTS

6.1 Access to Information.

(a) Subject to any applicable contractual confidentiality obligations (which the Company shall use all commercially reasonable efforts to cause to be waived), the Company shall afford Komag and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Closing to (a) all of its properties, employees, books, contracts, agreements and records relating to the Media Business or the Acquired Assets and (b) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of it as Komag may reasonably request for the purpose of conducting a due diligence review of the Media Business and the Acquired Assets. No information or knowledge obtained in any investigation pursuant to this Section 6.1(a) shall affect or be deemed to modify any representation or warranty contained herein.

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(b) Subject to any applicable contractual confidentiality obligations (which Komag shall use all commercially reasonable efforts to cause to be waived), Komag shall afford the Company and its accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the Closing to all information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of it as the Company may reasonably request for the purpose of evaluating an investment in Komag Common Stock. No information or knowledge obtained in any investigation pursuant to this Section 6.1(b) shall affect or be deemed to modify any representation or warranty contained herein.

(c) Subject to any required consents or approvals, Komag and its agents, representatives or consultants shall be permitted reasonable access, during normal business hours and without material interference to the Media Business, to all Leased Real Property prior to the Closing Date for the purpose of performing such investigations of the condition of the Leased Real Property as Komag shall deem necessary, including, but not limited to, investigation of the condition of the subsurface soils and groundwater.

6.2 Confidentiality. Each of the parties hereto hereby agrees to and reaffirms the terms and provisions of the Confidentiality and Nondisclosure Agreement between Komag and the Company dated as of April 6, 1999.

6.3 Public Disclosure. Unless otherwise required by law (including, without limitation, securities laws) or by the rules and regulations of the New York Stock Exchange, Inc. or the NASDAQ Stock Market or other securities exchange, prior to the Closing, no disclosure (whether or not in response to an inquiry) of the subject matter of this Agreement shall be made by any Party hereto unless approved by Komag and the Company prior to release; provided that such approval shall not be unreasonably withheld. In the event any such disclosure is required by law or by the rules and regulations of such exchange or market, the disclosing Party shall afford the other Party a reasonable prior opportunity to review the comment on such disclosure.

6.4 HSR Approval. The Parties hereto have filed with the United States Federal Trade Commission and the United States Department of Justice the pre-merger notifications and reports required to be filed pursuant to the HSR Act. The Parties hereto shall provide any supplemental information that may be requested in connection therewith and shall request early termination of the waiting period. All such notifications, reports and supplemental information, if any, at the time so filed or provided, shall comply, in all material respects, with the requirements of the HSR Act. Each Party shall provide such assistance to the other as it may reasonably request to assist the other in making such filings. The Company and Komag shall each bear fifty percent (50%) of the filing fees required by the HSR Act.

6.5 Consents. The Company shall use all commercially reasonable efforts to obtain the consents, waivers and approvals under any of the Contracts set forth in Sections 3.4, 3.5, 3.10(b), 3.10(c), 3.11(a)(ii), 3.12(a) and 3.14 of the Company Disclosure Schedule as may be required in connection with the Acquisition so as to assign to Komag all rights of the Company to the Acquired Assets and the Media Business including, without limitation, the consents, waivers and approvals of

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all equipment lessors to allow Komag to move all manufacturing equipment included within the Acquired Assets to Malaysia on terms and conditions acceptable to the Company and Komag. Komag shall use all commercially reasonable efforts to obtain the consents and approvals under any contracts set forth in Sections 4.4 and 4.5 of the Komag Disclosure Schedule. Each Party agrees to pay all fees and costs necessary to obtain the consents, waivers and approvals required to be obtained by it; provided that, all fees and costs necessary to obtain any consents, waivers and approvals of any of the equipment lessors or landlords pursuant to any equipment leases or real property leases identified on the Company Disclosure Schedules shall be paid by the Company; provided, further, however, that if the fees and costs necessary to obtain a particular consent, waiver or approval of any such equipment lessor or landlord exceeds \$1,500 the parties shall allocate the fees and costs with respect to such consent, waiver or approval, after good faith negotiations, in a manner mutually agreeable to the parties. Notwithstanding anything contained herein to the contrary, if any of the equipment lessors require Komag to issue letter(s) of credit on behalf of such equipment lessor(s) in connection with any of the equipment leases identified on the Company Disclosure Schedules, Komag shall use commercially reasonable efforts to obtain such letter(s) of credit; provided that, if Komag is unable to obtain the letter(s) of credit in the full amount required by such equipment lessor(s), the Company shall obtain one or more letter(s) of credit on behalf of such equipment lessor(s) in the amount of any such shortfall up to a maximum aggregate amount of the lesser of (i) twenty percent (20%) of the value of the letter(s) of credit requested by such equipment lessor(s) and (ii) \$5,000,000.

6.6 Commercially Reasonable Efforts; Access to Warehouse. Subject to the terms and conditions provided in this Agreement, each of the Parties hereto shall use all commercially reasonable efforts to take promptly, or cause to be taken, all actions, and to do promptly, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated hereby to obtain all necessary waivers, consents and approvals and to effect all necessary registrations and filings and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement for the purpose of securing to the Parties hereto the benefits contemplated by this Agreement; provided that Komag shall not be required to agree to any divestiture by Komag or any of Komag's subsidiaries or Affiliates of shares of capital stock or of any business, assets or property of Komag or its subsidiaries or Affiliates including, without limitation, the Media Business or any of the Acquired Assets, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and capital stock. For a period of thirty (30) days following the Closing Date, the Company shall provide Komag and its employees and agents with reasonable access, during normal business hours and with prior notice, from time to time, to enter into the Five Star Warehouse and the TWI Warehouse in order to determine which equipment and other items it wishes to include within the Acquired Assets and to remove from the warehouses such equipment and other items so designated.

6.7 Notification of Certain Matters. The Company shall give prompt notice to Komag, and Komag shall give prompt notice to the Company, of (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of

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the Company and Komag, respectively, contained in this Agreement to be materially untrue or inaccurate at or prior to the Closing except as contemplated by this Agreement (including the Company Disclosure Schedule) and (ii) any failure of the Company or Komag, as the case may be, to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 6.7 shall not limit or otherwise affect any remedies available to the party receiving such notice.

6.8 Employee Matters.

(a) Selection of Employees. Komag has made, and is prepared to make further, written offers of employment to those Employees at the Company's Santa Clara, California and San Jose, California facilities as Komag deems necessary, in its sole discretion, to operate the Media Business efficiently after the Closing and to meet the Company's volume requirements set forth in the Volume Purchase Agreement (conditional upon the closing of the Acquisition); provided, that Komag shall not be obligated to employ, and shall have no Liability with respect to the continued employment of, any of the Employees. The Company hereby waives, releases and discharges all Employees who shall accept employment from Komag ("Transferred Employees") from any and all noncompetition, confidentiality or employment restrictions, obligations or agreements entered into by such Transferred Employees with the Company to the extent that such Transferred Employees are performing services related to the Media Business for Komag or any of its Affiliates. The Company agrees that any disclosure of confidential information relating to the Media Business by a Transferred Employee to Komag or any of its Affiliates shall not constitute a breach of any confidentiality agreement between such Transferred Employee and the Company.

(b) Employee Plans. Komag shall use all commercially reasonable efforts to (i) provide all Transferred Employees with employee health benefits substantially similar in the aggregate in coverage and benefits as to those provided as of the date hereof by the Company, (ii) waive any pre-existing condition requirements or waiting period requirements under such Person's Employee Plans to the extent permitted by the insurance carrier, (iii) credit previous service by the Transferred Employees with the Company under such Person's comparable employee benefit plans, including but not limited to a 401(k) savings plan, for purposes of eligibility to participate, early commencement of benefits and vesting and (iv) apply toward any deductible requirement or "out-of-pocket" maximum limit under any such Person's employee benefit plans any amounts paid (or accrued) by each Transferred Employee under any Employee Plan, to the extent that the plan years of the relevant plan overlap.

(c) 401(k) Plan Rollovers. The Company and Komag agree to use their best efforts to enable individual rollovers of Transferred Employees' account balances in the Company's 401(k) Plan to Komag's 401(k) Plan, which balances may include plan loans. In furtherance and not in limitation of the foregoing, provided that Transferred Employees have completed the Company's 401(k) termination distribution request form, the Company shall complete Komag's standard rollover form for each Transferred Employee electing to rollover his or her account balance into Komag's 401(k) Plan in a timely manner. In addition, the Company will provide Komag with a

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discussion of facts in support of the Company's view that the sale of the Media Business by the Company to Komag is the sale of "substantially all of the assets" used in a "trade or business" within the meaning of section 401(k)(10) of the Code.

(d) WARN Act. The Company has sent out a notification pursuant to the Workers Adjustment and Retraining Notification Act of 1988, as amended ("WARN Act"), to all Employees who are not Offered Employees ("Non-Offered Employees") to commence the sixty (60) day notification period required under the WARN Act. All Liabilities relating to the employment, termination or employee benefits of Employees including, without limitation, all termination obligations in connection with the WARN Act shall be the responsibility of the Company; provided that Komag shall be responsible for all such termination obligations under the WARN Act with respect to (i) Employees who were designated as Offered Employees by Komag but whose offers of employment were revoked by Komag prior to the Closing and (ii) Offered Employees who are hired by Komag following the Closing to the extent such obligations under the WARN Act arise from actions of Komag following the Closing; provided, further, however, that Komag shall not be responsible for termination obligations under the WARN Act with respect to Offered Employees who do not accept offers of employment from Komag. In addition, the Company shall give advance notice to all Non-Offered Employees under any state statute analogous to the WARN Act.

(e) COBRA. The Company shall be solely responsible for providing continuation health coverage, to the extent required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), to all Offered and Non-Offered Employees and their eligible dependents who have experienced a qualifying event before or on the Closing Date and who (i) elect continuation coverage within the time period prescribed by COBRA and (ii) who are otherwise qualified beneficiaries (as defined in Section 4980B(g)(1) of the Code), and the Company shall indemnify Komag for any and all loss, cost or expense relating to any and all outstanding obligations, Liabilities and claims arising under COBRA.

(f) Nonsolicitation of Employees. Notwithstanding anything else contained herein to the contrary, (a) unless this Agreement is terminated prior to the Closing for any reason, the Company shall not solicit the continued employment of any of the Transferred Employees for a period of twelve (12) months following the date Komag designated such Employees as Offered Employees and (b) in the event that this Agreement is terminated prior to Closing for any reason, Komag shall not continue to solicit the employment of any of the Offered Employees for a period of twelve (12) months following the date of the termination of the Agreement; provided that, the foregoing restrictions shall not prohibit any of the parties from making general solicitations of employment not specifically directed to the Employees.

(g) No Third Party Beneficiary Rights. Notwithstanding anything contained herein to the contrary, no provision in this Section 6.8 shall create any third party beneficiary or other rights to any Employee (including any beneficiary or dependent thereof) in respect of continued employment (or resumed employment) with the Company, Komag or any of their Affiliates, and no provision in this Section 6.8 shall create any rights in any such Person in respect of any benefits that may be provided, directly or indirectly, under any Employee Plan or arrangement

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established by Komag or its Affiliates. No provision of this Agreement shall constitute a limitation on the rights of Komag or its Affiliates to amend, modify or terminate after the Closing Date any such plans or arrangements.

6.9 NMS Listing. Komag shall authorize for listing on the Nasdaq National Market the Sale Shares issuable in connection with the Acquisition, upon official notice of issuance.

ARTICLE VII

CONDITIONS TO OBLIGATION TO CLOSE

7.1 Conditions to Obligations of each of the Parties. The respective obligations of each Party to this Agreement to consummate the Acquisition shall be subject to the satisfaction at or prior to the Closing of the following conditions:

(a) HSR Approval. The waiting period applicable to the consummation of the Acquisition under the HSR Act shall have been terminated or shall have expired without the threat of litigation by a Governmental Entity.

(b) No Injunctions or Restraints on the Conduct of the Business. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or provision challenging the Acquisition shall be in effect nor shall any proceeding brought by a Governmental Entity seeking the foregoing be pending.

7.2 Additional Conditions to Obligation of Komag. The obligation of Komag to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions, any of which may be waived in writing exclusively by Komag:

(a) Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall have been true and correct in all material respects as of the date of this Agreement. In addition, the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, except for those representations and warranties which address matters only as of a particular date (which shall remain true and correct in all material respects as of such particular date), with the same force and effect as if made on and as of the Closing Date, except in such cases (other than Sections 3.1 through 3.3 and 3.27 through 3.29) where the failure to be so true and correct would not, in the aggregate, have a material adverse effect on the Media Business or the value of the Acquired Assets. Komag shall have received a certificate with respect to the foregoing signed on behalf of the Company by the Vice President, Business Operations and the Chief Financial Officer of the Company.

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(b) Agreements and Covenants. The Company shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed and complied with by it on or prior to the Closing Date, and Komag shall have received a certificate to such effect signed on behalf of the Company by the Vice President, Business Operations and the Chief Financial Officer of the Company.

(c) Consents and Approvals of the Company. The Company shall have furnished evidence to Komag satisfactory, in its reasonable discretion, that all of the third party consents, approvals and waivers referenced in Section 6.5 have been obtained including, without limitation, (i) acknowledgements and waivers from the landlords under each of the real property leases to be assigned to Komag stating that, among other things, there is no default (and the Acquisition has not caused a default) under such real property lease, (ii) the consents of all equipment lessors of the Leased Fixed Assets to allow Komag to move all manufacturing equipment included within the Acquired Assets to Malaysia on terms and conditions acceptable to Komag and the Company and (iii) the consent of Bank of Boston under the Company's senior credit facility and the removal of all Liens granted to the Bank of Boston with respect to any of the Acquired Assets.

(d) Consents and Approvals of Komag. Komag shall have received the written consents, approvals and/or waivers of each of those Persons set forth in Sections 4.4 and 4.5 of the Komag Disclosure Schedule.

(e) No Litigation. No action, suit, or proceeding shall be pending or threatened before any Governmental Entity wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by this Agreement or the Collateral Documents, (B) cause any of the transactions contemplated by this Agreement or the Collateral Documents to be rescinded following consummation of the Acquisition, or (C) materially affect in an adverse manner the right of Komag to own the Acquired Assets, and to operate the Media Business (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect).

(f) No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any material adverse effect on the Media Business, any of the Acquired Assets or the financial condition, results of operation or business of the Company.

(g) Assignment and Assumption Agreement. The Company shall have entered into an Assignment and Assumption Agreement, in the form set forth in Exhibit E attached hereto (the "Assignment and Assumption Agreement").

(h) Bill of Sale. The Company shall have executed a Bill of Sale, in the form set forth in Exhibit F attached hereto ("Bill of Sale").

(i) Volume Purchase Agreement. The Company shall have entered into a Volume Purchase Agreement with Komag and/or Komag USA (Malaysia) Sdn., in the form set forth in Exhibit G attached hereto (the "Volume Purchase Agreement").

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(j) Joint Development Agreement. The Company shall have entered into a Joint Development Agreement with Komag in the form set forth in Exhibit H attached hereto (the "Joint Development Agreement").

(k) License Agreement. The Company shall have entered into a License Agreement with Komag and/or Komag USA (Malaysia) Sdn. in the form set forth in Exhibit I attached hereto (the "License Agreement").

(l) Registration Rights Agreement. The Company shall have entered into a Registration Rights Agreement with Komag, in the form set forth in Exhibit J attached hereto (the "Registration Rights Agreement").

(m) Transitional Services Agreement. The Company shall have entered into a Transitional Services Agreement with Komag, in the form set forth in Exhibit K attached hereto (the "Transitional Services Agreement").

(n) Preliminary Closing NBV Statement. The Company shall have delivered to Komag the Preliminary Closing NBV Statement.

(o) Legal Opinion of Company's Counsel. Komag shall have received from counsel to the Company and the general counsel of the Company opinions, in the form set forth in Exhibit L attached hereto, addressed to Komag, and dated as of the Closing Date.

(p) Environmental Audit. Komag shall have obtained, investigated and approved, in its sole discretion, no later than five (5) days prior to the Closing Date, a report of any consultant selected by Komag regarding the Pre-Closing Hazardous Materials Activities; the exposure of the Company's employees or customers to Hazardous Materials arising out of the operation of the Media Business prior to the Closing Date; the presence or absence of Hazardous Materials on any real property as a result of the operation of the Media Business; or the likelihood that Hazardous Materials will migrate onto any Leased Real Property.

7.3 Additional Conditions to Obligation of the Company. The obligation of the Company to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions, any of which may be waived in writing exclusively by the Company:

(a) Representations and Warranties. The representations and warranties of Komag contained in this Agreement shall have been true and correct in all material respects as of the date of this Agreement. In addition, the representations and warranties of Komag contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, except for those representations and warranties which address matters only as of a particular date (which shall remain true and correct in all material respects as of such particular date), with the same force and effect as if made on and as of the Closing Date, except in such cases (other than Sections 4.2 and 4.3) where the failure to be so true and correct would not, in the aggregate, have a material adverse effect on the financial condition, results of operation or business of Komag. The Company shall have

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received a certificate with respect to the foregoing signed on behalf of Komag by its President and Chief Financial Officer.

(b) Agreements and Covenants. Komag shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed and complied with by it on or prior to the Closing Date, and the Company shall have received a certificate to such effect signed on behalf of Komag by its President and Chief Financial Officer.

(c) Consents and Approvals of the Company. The Company shall have obtained the following consents, approvals and waivers: (i) acknowledgements and waivers from the landlords under each of the real property leases to be assigned to Komag stating that, among other things, there is no default (and the Acquisition has not caused a default) under such real property lease, (ii) the consents of all equipment lessors of the Leased Fixed Assets to allow Komag to move all manufacturing equipment included within the Acquired Assets to Malaysia on terms and conditions acceptable to Komag and the Company and (iii) the consent of Bank of Boston under the Company's senior credit facility.

(d) No Litigation. No action, suit, or proceeding shall be pending before any Governmental Entity wherein an unfavorable injunction, judgment, order, decree, ruling or charge would (A) prevent consummation of any of the transactions contemplated by this Agreement or the Collateral Documents or (B) cause any of the transactions contemplated by this Agreement or the Collateral Documents to be rescinded following consummation of the Acquisition (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect).

(e) Assignment and Assumption Agreement. Komag shall have entered into the Assignment and Assumption Agreement.

(f) Volume Purchase Agreement. Komag shall have entered into the Volume Purchase Agreement.

(g) Joint Development Agreement. Komag shall have entered into the Joint Development Agreement.

(h) License Agreement. Komag shall have entered into the License Agreement.

(i) Registration Rights Agreement. Komag shall have entered into the Registration Rights Agreement.

(j) Transitional Services Agreement. Komag shall have entered into the Transitional Services Agreement.

(k) No Material Adverse Effect. There shall not have occurred any material adverse change in the business, results of operation or financial condition of Komag since the date hereof; provided that, a reduction in the trading price of Komag Common Stock, whether occurring

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at any time or from time to time, as reported by the Nasdaq National Market shall not constitute a material adverse change.

(l) Promissory Note. Komag shall have delivered to the Company the Promissory Note.

(m) Legal Opinion of Komag's Counsel. The Company shall have received from counsel to Komag an opinion, in form set forth in Exhibit M attached hereto, addressed to the Company, and dated as of the Closing Date.

(n) Value of Sale Shares. The Share Amount Cap shall not have been applied to determine the Share Amount.

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ESCROW; INDEMNITY

8.1 Survival of Representations and Warranties. Except as set forth in Section 8.5 hereof, all of the representations and warranties in this Agreement or in any certificate delivered pursuant to this Agreement shall survive the Acquisition and continue for a period ending on the [***] anniversary of the Closing.

8.2 Agreement to Indemnify.

(a) The Company agrees to indemnify and hold Komag and each of its Affiliates, officers, directors, employees and shareholders (collectively, the "Komag Indemnitees") harmless against any and all losses, claims, damages, costs, expenses or other liabilities (including reasonable attorneys' fees and expenses and expenses of investigation and defense) (collectively, "Damages") resulting from (i) any breach of or inaccuracy in any representations and warranties of the Company set forth in this Agreement, the Company Disclosure Schedule or in any other certificate delivered by or on behalf of the Company pursuant to this Agreement, (ii) any breach or default by the Company of any covenant, obligation or other agreement of the Company set forth in this Agreement, the Company Disclosure Schedule or any other certificate delivered by or on behalf of the Company pursuant to this Agreement and (iii) any of the Retained Liabilities (each, a "Komag Indemnifiable Claim").

(b) Komag agrees to indemnify and hold the Company and each of its Affiliates, officers, directors, employees and shareholders (collectively, the "Company Indemnitees") harmless against any and all Damages resulting from (i) any breach of or inaccuracy in any representations and warranties of Komag set forth in this Agreement, the Komag Disclosure Schedule or in any other certificate delivered by or on behalf of the Company pursuant to this Agreement, (ii) any breach or default by Komag of any covenant, obligation or other agreement of Komag set forth in this Agreement, the Komag Disclosure Schedule, or any other certificate delivered by or on behalf of

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the Company pursuant to this Agreement and (iii) any of the Assumed Liabilities (each, a "Company Indemnifiable Claim").

8.3 Limits of Liability. In no event shall any Komag Indemnitee or Company Indemnitee, as applicable ("Indemnitee"), be reimbursed for any Damages under this Article VIII until the aggregate of all Damages incurred by all Komag Indemnitees or Company Indemnitees, as the case may be, exceeds \$[***] ("Threshold Amount") (after which the amount of all Damages, including such \$[***], shall become payable in accordance with the provisions of this Article VIII); provided that, (i) the Threshold Amount shall not apply to [***] or (ii) the Threshold Amount shall not apply to [***]. Notwithstanding anything else contained in this Agreement to the contrary, the maximum aggregate amount which Komag Indemnitees or the Company Indemnitees, as the case may be, may recover pursuant to this Article VIII is \$[***]; provided that, the indemnities provided in Sections 8.2(a)(iii) and 8.2(b)(iii) shall not be limited by the foregoing \$[***] maximum.

8.4 Indemnification Procedures; Time Limits.

(a) If any Indemnitee shall incur any Damages, there shall be delivered to the Company or Komag, as the case may be (the "Indemnifying Party"), a certificate signed in good faith by the Company or Komag, as the case may be, on behalf of such Indemnitee (an "Officer's Certificate") stating that such Indemnitee has paid, properly accrued or reasonably anticipates that it will have to pay or accrue Damages in an amount specified in such Officer's Certificate, specifying in reasonable detail the individual items of Damages included in the amount so stated, the date each such item was paid or properly accrued, or the basis for such anticipated Liability, and the nature of Komag Indemnifiable Claim or Company Indemnifiable Claim, as the case may be (the "Indemnifiable Claim"), to which such item is related. The Indemnifying Party shall, within thirty (30) days after receipt of the Officer's Certificate, subject to the provisions of Section 8.4(c) hereof, deliver to such Indemnitee in immediately available funds (U.S. Dollars) an amount equal to such Damages.

(b) For a period of thirty (30) days after the receipt of such Officer's Certificate by the Indemnifying Party, the Indemnifying Party shall be entitled to review the Officer's Certificate and the basis of the Indemnifiable Claim. If the Indemnifying Party desires to dispute the Indemnifiable Claim or the Damages set forth in the Officer's Certificate, the Indemnifying Party may do so by providing written notice of such dispute to the Company or Komag, as the case may be, on behalf of the Indemnitee prior to the expiration of such thirty (30) day period.

(c) If the Indemnifying Party shall so object in writing to any claim or claims made in any Officer's Certificate, the Indemnifying Party and the Company or Komag, as the case may be, on behalf of the Indemnitee shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Indemnifying Party and the Company or Komag, as the case may be, on behalf of the Indemnitee, should so agree, a memorandum setting forth such agreement shall be prepared and signed by Komag, the Company and the Indemnitee and the parties shall resolve the dispute in accordance with such memorandum. If no such agreement can be reached after good faith negotiation, either the Indemnifying Party or the Company or Komag, as

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the case may be, on behalf of the Indemnitee, may demand arbitration of the matter unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or the Indemnifying Party and Komag or the Company, as the case may be, on behalf of the Indemnitee, agree to arbitration; and in either such event the matter shall be settled by arbitration conducted by three arbitrators. The Indemnifying Party and Komag or the Company, as the case may be, on behalf of the Indemnitee, shall each select one arbitrator, and the two arbitrators so selected shall select a third arbitrator, each of which arbitrators shall be independent. The arbitrators shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrators, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrators shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys fees and costs, to the extent as a court of competent law or equity, should the arbitrators determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of a majority of the three arbitrators as to the validity and amount of any claim in such Officer's Certificate shall be binding and conclusive upon the parties to this Agreement and all other Indemnitees. Such decision shall be written and shall be supported by written findings of fact and conclusions which shall set forth the award, judgment, decree or order awarded by the arbitrators.

(d) Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction. Any such arbitration shall be held in Santa Clara County, California under the rules then in effect of the Judicial Arbitration and Mediation Services, Inc. For purposes of this Section 8.4, in any arbitration hereunder in which any claim or the amount thereof stated in the Officer's Certificate is at issue, the Indemnitee shall be deemed to be the non-prevailing party of the arbitration in the event that the arbitrators award the Indemnitee less than the sum of one-half (1/2) of the disputed amount plus any amounts not in dispute; otherwise, the Indemnifying Party shall be deemed to be the non-prevailing party. The non-prevailing party to an arbitration shall pay its own expenses, the fees of each arbitrator, the administrative costs of the arbitration, and the expenses, including without limitation, reasonable attorneys' fees and costs, incurred by the other party to the arbitration.

(e) In the event any Indemnitee becomes aware of a third-party claim which such Indemnitee believes may result in an Indemnifiable Claim, such Indemnitee shall promptly notify the Indemnifying Party of such claim, and, provided that the Indemnifying Party acknowledges that such claim is an Indemnifiable Claim, the Indemnifying Party shall be entitled, at the Indemnifying Party's expense, to participate in any defense of such claim. The Indemnitee shall have the right in its sole discretion to settle any such claim; provided, however, that, except with the consent of the Indemnifying Party, no settlement of any such claim with third-party claimants shall alone be determinative of the amount of any Indemnifiable Claim. In the event that the Indemnifying Party has consented to any such settlement and acknowledged that the claim is a Indemnifiable Claim, the Indemnifying Party shall have no power or authority to object under any provision of this Article VIII to the amount of any Indemnifiable Claim by such Indemnitee with respect to such settlement.

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8.5 Survival of Environmental Covenants. The obligations and rights of Komag and Company with respect to (i) Seller's Retained Environmental Liabilities and (ii) the representations made in Section 3.22 hereof (collectively the "Environmental Covenants") are in addition to, independent from, and severable from the rights and obligations of the Parties under all other provisions of this Agreement. It is expressly acknowledged by all Parties hereto that neither the acts or omissions of any Party hereto, nor any failure of any condition or breach of a representation contained in the Agreement or any related agreements, shall impair the right of Komag to enforce the Environmental Covenants for their benefit, it being understood that the Environmental Covenants are being given consideration of the closing of the transactions contemplated by the Agreement and not in consideration of future performance or any representation, and are intended to allocate risk of loss and to create rights and obligations with respect to the matters covered by the Environmental Covenants between the Parties without regard to the conduct of any Person. No failure of any Person to exercise its rights under the Environmental Covenants and no delay in exercising any right or remedy hereunder, at law or in equity, shall operate as a waiver of the agreements contained in the Environmental Covenants; nor shall the Parties be estopped from exercising any right or remedy at any future time because of any such failure or delay; nor shall any single or partial exercise of any such right or remedy preclude any other or future exercise thereof or the exercise of any other right or remedy. The Environmental Covenants shall survive the sale, transfer, assignment, or hypothecation of any ownership interest in a party benefited hereby or obligated hereunder and the sale, transfer, assignment, or hypothecation of the Acquired Assets or any Media Business Facility, or any portion thereof or interest therein, by Komag to any Person.

ARTICLE IX

TERMINATION

9.1 Termination of Agreement. This Agreement may be terminated at any time prior to the Closing as provided below:

(a) the Parties may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Komag may terminate this Agreement by giving written notice to the Company at any time prior to the Closing if Komag is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of the Company and as a result of such breach the condition set forth in Section 7.2(a) or 7.2(b), as the case may be, would not then be satisfied; provided, however, that if such breach is curable by the Company within thirty (30) days through the exercise of its commercially reasonable efforts, then for so long as the Company continues to exercise such commercially reasonable efforts Komag may not terminate this Agreement under this Section 9.1 unless such breach has not been cured within thirty (30) days (but no cure period shall be required for a breach which by its nature cannot be cured);

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(c) the Company may terminate this Agreement by giving written notice to Komag at any time prior to the Closing if the Company is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Komag and as a result of such breach the condition set forth in Section 7.3(a) or 7.3(b), as the case may be, would not then be satisfied; provided, however, that if such breach is curable by Komag within thirty (30) days through the exercise of its commercially reasonable efforts, then for so long as Komag continues to exercise such commercially reasonable efforts the Company may not terminate this Agreement under this Section 9.1 unless such breach has not been cured within thirty (30) days (but no cure period shall be required for a breach which by its nature cannot be cured); or

(d) either Party may terminate this Agreement at any time, if there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Acquisition by any Governmental Entity, which would: (i) prohibit Komag's ownership or operation of all or any material portion of the Media Business or the Acquired Assets, (ii) compel Komag to dispose of or hold separate all or a material portion of the Media Business or the Acquired Assets or other businesses or assets of Komag as a result of the Acquisition or (iii) materially limit the benefits accruing to such Party under the Volume Purchase Agreement.

9.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 9.1, this Agreement shall forthwith become void, and there shall be no liability or obligation on the part of Komag or the Company, or their respective officers, directors or shareholders; provided that each party shall remain liable for any breaches of this Agreement prior to its termination; and provided further that, the provisions of Sections 6.2, 6.3, 6.8(e), 10.10 and 10.14 and Article VIII of this Agreement shall remain in full force and effect and survive any termination of this Agreement.

9.3 Escrow Agreement; Distribution of Property. Notwithstanding anything contained in this Agreement to the contrary, upon consummation of the Acquisition, the Property (as defined in the Escrow Agreement) shall immediately be distributed to Komag; provided, however, that, if this Agreement is terminated prior to the consummation of the Acquisition, the Property shall be distributed in accordance with Section 14(b) of the Escrow Agreement.

ARTICLE X

MISCELLANEOUS

10.1 No Third-Party Beneficiaries. Except as expressly provided in this Agreement, this Agreement shall not confer any rights or remedies upon any Person other than the Parties, their respective successors and permitted assigns and, with respect to Sections 7.2(i) and 7.2(k) Komag USA (Malaysia) Sdn.

10.2 Entire Agreement. This Agreement (including the Disclosure Schedules and other documents referred to herein) constitutes the entire agreement between the Parties with respect to the

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subject matter hereof and supersedes any prior understandings, agreements or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

10.3 Succession and Assignment. Except as expressly provided in this Agreement, this Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder by operation of law or otherwise without the prior written approval of each other Party; provided, however, that Komag may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Komag nonetheless shall remain responsible for the performance of all of its obligations hereunder).

10.4 Counterparts. This Agreement may be executed, including by facsimile signature, in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

10.5 Headings. The Section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.6 Notices. All notices and other communications required or permitted under this Agreement shall be deemed to have been duly given and made if in writing and if served either by personal delivery or by facsimile (with telephonic confirmation of receipt) to the Party for whom intended (which shall include delivery by Federal Express or similar nationally recognized service) or three business days after being deposited, postage prepaid, certified or registered mail, return receipt requested, in the United States mail bearing the address shown in this Agreement for, or such other address as may be designated in writing hereafter by, such Party:

If to the Company:	Western Digital Corporation 8105 Irvine Center Drive Irvine, California 92618 Attn: Michael A. Cornelius Telephone: (949) 932-5000 Facsimile: (949) 932-3820
With a Copy to:	Gibson, Dunn & Crutcher LLP 1520 Page Mill Road Palo Alto, California 94304-1125 Attn: Gregory T. Davidson, Esq. Telephone: (650) 849-5300 Facsimile: (650) 849-5333
If to Komag:	Komag, Incorporated 1704 Automation Parkway San Jose, CA 95131 Attn: Chief Financial Officer

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Telephone: (408) 576-2200
Facsimile: (408) 944-9255

With a Copy to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
650 Page Mill Road
Attn: Steven V. Bernard, Esq.
Telephone: (650) 493-9300
Facsimile: (650) 493-6811

Any Party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

10.7 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the internal laws of the State of Delaware.

10.8 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Komag and the Company. No waiver of any provisions of this Agreement shall be valid unless the same shall be in writing and signed by the waiving party. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.9 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.10 Expenses. Whether or not the Acquisition is consummated, all fees and expenses incurred in connection with the Acquisition including, without limitation, all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties incurred by a party in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the Collateral Documents and the transactions contemplated hereby and thereby, shall be the obligation of the respective party incurring such fees and expenses; provided that the accounting fees and expenses of the Company in connection with the preparation of audited financial statements with respect to the Media Business, if audited financial statements are requested by Komag, shall be borne by Komag.

10.11 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this

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Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean "including without limitation." The word "agreement" when used herein shall be deemed in each case to mean any contract, commitment or other agreement, whether oral or written, which is legally binding. Words using the singular or plural number also include the plural or singular number, respectively.

10.12 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

10.13 Other Remedies. Except as otherwise expressly provided herein, any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy.

10.14 Submission to Jurisdiction. Each of the Parties irrevocably consents to the exclusive jurisdiction and venue of any state or federal court sitting in Santa Clara County, California, in any action or proceeding arising out of or relating to this Agreement and agrees that, except as otherwise provided in Section 8.4, all claims in respect of the action or proceeding may be heard and determined in any such court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or in equity.

10.15 Share Legends. All certificates representing any of the shares of Komag Common Stock to be issued pursuant to this Agreement shall have endorsed thereon a restrictive legend substantially as follows:

(a) "THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED."

(b) Any legend required to be placed thereon by applicable blue sky laws of any state.

(c) "THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND MAY NOT BE EXCHANGED, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT IN ACCORDANCE WITH AND SUBJECT TO ALL OF THE TERMS AND CONDITIONS OF THAT CERTAIN

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REGISTRATION RIGHTS AGREEMENT DATED AS OF APRIL 8, 1999 BY AND BETWEEN KOMAG, INCORPORATED AND WESTERN DIGITAL CORPORATION, A COPY OF WHICH KOMAG, INCORPORATED WILL FURNISH TO THE HOLDER OF THIS CERTIFICATE UPON REQUEST AND WITHOUT CHARGE."

10.16 California Corporate Securities Law. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE OF SECURITIES IS EXEMPT FROM THE QUALIFICATION BY SECTION 25100, 25102, OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as
of the date first above written.

KOMAG, INCORPORATED

By: _____
Name:
Title:

WESTERN DIGITAL CORPORATION

By: _____
Name:
Title:

The undersigned, Komag USA (Malaysia) Sdn., agrees to be bound by the
terms contained in Sections 7.2(i), 7.2(k) and 10.1 of this Agreement.

KOMAG USA (MALAYSIA) SDN.

By: _____
Name:
Title:

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VOLUME PURCHASE AGREEMENT

This Volume Purchase Agreement, dated as of April 8, 1999, is made by and between Komag, Incorporated, a Delaware corporation ("KOMAG") and Western Digital Corporation, a Delaware corporation ("WDC").

BACKGROUND

A. Komag and WDC are entering into an Asset Purchase Agreement of even date herewith pursuant to which Komag is acquiring certain assets used in the production of certain product components (the "ASSET PURCHASE AGREEMENT").

B. The parties acknowledge that this Volume Purchase Agreement is part of a significant strategic relationship, in which Komag is purchasing assets from WDC to produce media and WDC is agreeing to purchase certain of its requirements of media from Komag, and Komag is agreeing to supply such requirements to WDC, to enable Komag to spread costs for media over a greater volume, and to enable Komag to incur the significant research and development costs associated with the historically rapid technology advances and short product cycles for media, and to enable WDC to obtain favorable pricing on a consistent supply of high-quality, state-of-the-art media, all to the mutual benefit of Komag and WDC.

C. WDC desires to purchase, and Komag desires to sell to WDC, certain products manufactured using such acquired assets as well as other products manufactured by Komag, all in accordance with the terms of this Volume Purchase Agreement.

NOW THEREFORE, for and in consideration of the covenants, conditions, and undertakings hereinafter set forth, as well as a portion of the stock issued pursuant to the Asset Purchase Agreement, the parties agree as follows:

ARTICLE 1: DEFINITIONS

For the purposes of this Volume Purchase Agreement, unless the context otherwise requires, the following terms will have the respective meanings set out below and grammatical variations of such terms will have corresponding meanings:

1.1 "A-BUILD" of a WDC product has the meaning assigned thereto in WDC's classifications as of the Effective Date, and is the product "build" (e.g. A-0 build, A-1 build), developed before the Pilot Build or PMT Build has been developed.

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1.2 "ACTIVE PROGRAM" means a Program for a Product that is being purchased and sold under this Agreement that has not yet undergone an End of Life.

1.3 "ACTUAL MEDIA REQUIREMENTS" shall have the meaning set forth in Section 4.2.

1.4 "AFFILIATE" of a party means any entity that directly or indirectly controls, is under common control with, or is controlled by, such party. As used in this definition, "control" means possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through beneficial ownership of securities or other ownership interests, by contract or otherwise).

1.5 "COMPONENT" means a component of a WDC product.

1.6 "DAYS" means consecutive calendar days.

1.7 "DELIVERY DATE" or "SCHEDULED DELIVERY DATE" means the agreed date of delivery of Products as specified in Pull Requests.

1.8 "DISENTANGLEMENT" means a period of no more than ["**"] Days after termination of this Agreement to allow for (a) the transfer by Komag to WDC of any non-proprietary documentation of work processes and data that would be needed to allow WDC to continue to obtain Media comparable to the Products from alternate manufacturers; (b) the prompt and orderly conclusion of all work under this VPA, including without limitation the acknowledgment of Purchase Orders and the fulfillment of any Pull Requests during such ["**"]-Day period; (c) ["**"]; and (d) the prompt ramp-up to full volume production by an alternative provider or alternative providers of Media for WDC's requirements; provided, however, that nothing in (a) through (d) will be construed to require Komag to disclose or license any proprietary information or other intellectual property to any third party.

1.9 "EFFECTIVE DATE" means the Closing Date, as such term is defined in the Asset Purchase Agreement.

1.10 "END OF LIFE" has the meaning set forth in EXHIBIT D.

1.11 "EXHIBIT" means an attachment to this VPA. Exhibits are incorporated herein by reference thereto.

1.12 "FGI" has the meaning set forth in Section 5.1.

1.13 "FISCAL QUARTER" means the fiscal quarters of WDC set forth on EXHIBIT A.

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1.14 "FORCE MAJEURE EVENT" means an act of nature, civil disruption, power outage, public enemy, government action, or freight embargo beyond the control of a party.

1.15 "INACTIVE PROGRAM" means a Program that has undergone an End of Life.

1.16 "JIT HUB INVENTORY WATERMARK" means a quantity of Units equal to the product of two times the quotient of (a) WDC's most recent forecasted requirements for the four full calendar weeks following the week in which the computation is made, divided by (b) four.

1.17 "JIT HUBS" has the meaning set forth in Section 5.3.

1.18 "LEAD TIME" means, for purposes of this VPA, the minimum length of time prior to a specific Delivery Date that Komag must receive a Pull Request to ensure delivery by such date.

1.19 "MATERIAL DEFAULT" shall mean the occurrence of any of the following:

1.19.1 Failure of Komag to deliver (subject to Section 6.6) in a given Fiscal Quarter the lesser of (a) [***]% of the WDC Actual Media Requirements during such Fiscal Quarter; (b) [***]% of the Units in the Purchase Order for such Fiscal Quarter delivered by WDC under Section 5.2; (c) the number of Units of "Fiscal Quarterly Purchase Requirements" in the chart below for the year in which such Fiscal Quarter falls; and (d) the number of Units equal to (i) Units [***] in such Fiscal Quarter; plus (ii) Units [***]. However, any such failure prior to [***], will not be deemed a Material Default to the extent such failure is attributable to the failure of any Acquired Assets (as such term is defined in the Asset Purchase Agreement) to be year 2000 compliant;

PERIOD BEGINNING	PERIOD ENDING	FISCAL QUARTERLY PURCHASE REQUIREMENTS
Effective Date	Effective Date plus [***] months	[***] Units
Effective Date plus [***] months	Effective Date plus [***] months	[***] Units
Effective Date plus [***] months	Effective Date plus [***] months	[***] Units

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1.19.2 A material breach by either party (other than breach of a payment obligation of WDC under Section 6.5) of any obligation, covenant, or condition under this Agreement that is susceptible of cure, and the failure by the breaching party to cure such breach within 30 Days after the breaching party has received notice of such default (which notice must explicitly assert a Material Default under Section 1.19.2 of this VPA), provided that if the cure requires more than 30 Days, the breaching party fails to (i) promptly take action to cure such breach as quickly as reasonably possible; or (ii) cure such breach within 60 Days after the breaching party has received notice of such default;

1.19.3 A failure of WDC to meet its payment obligations under Section 6.5, and the failure by WDC to meet such obligations within 30 Days after WDC has received notice of Komag's intent to discontinue shipping Product pursuant to Section 6.6; or

1.19.4 An assignment or attempted assignment in violation of Section 12.4.

1.20 "MATRIX BUILD" of a WDC product has the meaning assigned thereto in WDC's classifications as of the Effective Date, and is a request by WDC for Media samples with a specified combination or combinations of coercivity and Mrt values.

1.21 "MEDIA" means recording disks, manufactured by any entity, as used in data storage devices.

1.22 "PILOT BUILD" of a WDC product has the meaning assigned thereto in WDC's classifications as of the Effective Date, and is typically the large build of a new WDC product in development before it is released to a WDC production facility.

1.23 "PMT BUILD" of a WDC product has the meaning assigned thereto in WDC's classifications as of the Effective Date, and is typically the first large build of a new WDC product after it has been released to a WDC production facility.

1.24 "PRICE" means the amount charged for Products, as specified in Section 6.1.

1.25 "PRODUCT" means the Media manufactured by Komag.

1.26 "PROGRAM" means a WDC product classification, currently including, for example, "Hunter" and "Rebel" disk drives. A Program may include various capacities, numbers of disks per drive, drive performance specifications, or drive interfaces (such as SCSI or ATA).

1.27 "PULL REQUEST" means a request made by WDC to Komag for delivery of Products from a JIT Hub.

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1.28 "PURCHASE ORDER" means a purchase order placed by WDC to Komag for Products as contemplated by this VPA.

1.29 "PURCHASE REQUIREMENTS" means the number of Units WDC is required to purchase and Komag is required to sell under Section 4.1.

1.30 "REPLACEMENT PRODUCTS" has the meaning set forth in EXHIBIT D.

1.31 "RMA" means returned material authorization.

1.32 "SECTION" means a numbered section of this VPA.

1.33 "SPECIFICATIONS" means designs, drawings, prints and written descriptions, specification reviews and requirements for Products that have been developed by WDC and Komag as of the date of this VPA, or which may be developed by WDC and Komag during the term of this VPA.

1.34 "STOP SHIP ORDER" means a stop ship order under WDC's established stop ship procedure 80-005447-000, resulting from a Product failing quality parameters.

1.35 "SUBCONTRACT" means an arrangement through which a disk drive supplier has disk drives made or assembled by a subcontractor, and such subcontractor provides such drives to the supplier for sale to third parties.

1.36 "TARGET FGI" has the meaning set forth in Section 5.3.

1.37 "UNIT" means a single Product.

1.38 "VPA" means this Volume Purchase Agreement, including the Exhibits.

1.39 "WIP" means work in process, as such term is generally understood in the Media industry.

ARTICLE 2: AGREEMENT STRUCTURE

2.1 BACKGROUND. Komag and WDC agree that this VPA creates a high degree of mutual dependence between Komag and WDC. Each party agrees to diligently cooperate with the other party to accomplish the objectives of this VPA.

2.2 AGREEMENT COMPONENTS. This VPA consists of this VPA (including its Exhibits), Purchase Orders and Pull Requests. If there is a conflict among the terms and conditions of the

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various documents or an ambiguity created by differences therebetween, the order of precedence will be (i) this VPA (excluding its Exhibits), (ii) Exhibits, and (iii) Purchase Orders and Pull Requests.

2.3 PURCHASE ORDER. Purchase Orders will be used to convey the Purchase Orders Price and number of Units, and accordingly Purchase Orders must contain the following: part number, Price, Units ordered, customer name, ship to address (destination), bill to address, and Purchase Order number. Delivery Dates shall be determined in accordance with Section 5.2. The parties acknowledge that such Purchase Orders, as well as confirming documents, acknowledgments, forms, invoices and the like used in the ordinary course of business may contain other terms and conditions. The parties agree that this VPA will take precedence over any such document or other communication, representation or understanding whether oral or written and that any term or condition relating to the subject matter of this VPA that is inconsistent with this VPA (whether in contradiction to, in addition to, or that would result in any ambiguity with respect to any term or condition in this VPA) will be deemed deleted and be of no force, including, but not limited to, any term or condition purporting to supersede this VPA in whole or in part or purporting to make any offer, acceptance, term, condition or other action conditional upon acceptance of, or indicating agreement to, any inconsistent term or condition. The foregoing may not be modified or waived except by written agreement of the parties, specifically referencing this VPA, and signed by officers of both parties. The parties agree that, without limiting Section 12.1, the foregoing shall not be superseded, altered, or overridden by any provision in the Uniform Commercial Code as it may have been adopted by any competent jurisdiction.

2.4 EXHIBITS. The following Exhibits are incorporated into this VPA by reference and deemed to be a part hereof:

- Exhibit A: WDC Fiscal Quarters
- Exhibit B: Initial Prices
- Exhibit C: Qualification Sample Prices
- Exhibit D: Supplier Warranty and Replacement Product Terms

ARTICLE 3: PRODUCT QUALIFICATION AND DEVELOPMENT

3.1 QUALIFICATION PROCESS. Each of the parties shall use commercially reasonable efforts to qualify Komag's Products on all Programs. Such efforts will require qualification of Products in combination with other Components (such as multiple combinations of Media and recording heads), as well as the subsequent qualification of WDC's disk drives incorporating such combinations at each WDC customer. Subject to Section 4.3, WDC agrees that Product qualifications must include sufficient WDC Programs, Component combinations and customers to allow WDC to meet its

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Purchase Requirements for Products under this VPA, taking into account that a Product may fail to qualify in a Program or Components combination, or for a customer, from time to time.

3.2 QUALIFICATION LOCATIONS. Following the Effective Date, Komag intends to manufacture Products under this Agreement using in-line and static sputtering processes at factory locations in Santa Clara and San Jose, California, and in Penang, Malaysia. Both parties recognize that WDC must qualify Products for its Programs specifically by process and factory location in accordance with industry practice.

3.2.1 INITIAL PERIOD. To permit a consolidation of WDC's Santa Clara facilities into Komag's manufacturing operations in the most expeditious manner, (i) WDC and Komag each agree during an initial transition period, not to exceed [**] months following the Effective Date, to use commercially reasonable efforts to [**]

3.2.2 SUBSEQUENT PERIOD. After the initial transition period described in Section 3.2.1, (i) WDC and Komag each shall use commercially reasonable efforts to [**]

3.3 QUALIFICATION SAMPLES. The prices for qualification sample Products during the first three years of the term of this VPA are indicated in EXHIBIT C.

3.4 CURE OF FAILURE. In the event the parties fail to qualify Products pursuant to Section 3.1, or to resolve a Stop Ship Order, the parties will use their best efforts to cure such failure until the midpoint of life of the Active Program. Thereafter, the parties will be obligated to continue to exert such efforts only as mutually agreed.

ARTICLE 4: PRODUCT PURCHASE AND SALE COMMITMENTS

4.1 MINIMUM PURCHASES AND SALES. WDC shall purchase Media from Komag, and Komag shall sell Media to WDC, in the amounts and for the periods specified in the following table:

PERIOD BEGINNING	PERIOD ENDING	PURCHASE REQUIREMENTS
Effective Date	Effective Date plus [**] months	The lesser of [**] Units and [**]% of WDC's Actual Media Requirements.
Effective Date plus [**] months	Effective Date plus [**] months	The lesser of [**] Units and [**]% of WDC's Actual Media Requirements.

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PERIOD BEGINNING	PERIOD ENDING	PURCHASE REQUIREMENTS
Effective Date plus [***] months	Effective Date plus [***] months	The lesser of [***] Units and [***]% of WDC's Actual Media Requirements.

4.2 ACTUAL MEDIA REQUIREMENTS. For the avoidance of doubt,

4.2.1 "ACTUAL MEDIA REQUIREMENTS" when used in Section 4.1 includes [***]

4.2.2 "ACTUAL MEDIA REQUIREMENTS" when used in Section 4.1 does not include [***]

4.2.3 "ACTUAL MEDIA REQUIREMENTS" when used in Section 4.1 includes [***].

4.3 COMPOSITION OF DEMAND. [***].

4.4 QUARTERLY MILESTONES. The Purchase Requirements are annual requirements. However, without limiting either party's obligations under Section 4.1, WDC shall use commercially reasonable efforts to purchase, and Komag shall use commercially reasonable efforts to sell to WDC, in each Fiscal Quarter, a number of Units consistent with WDC's forecast referenced in Section 5.1.

4.5 ADDITIONAL DEMAND. WDC may, but will not be obligated to, request that Komag provide Units in excess of the Purchase Requirements. Purchase Orders for such additional Units may be issued at any time by WDC, but will be subject to acceptance by Komag in its sole discretion. Pricing and other terms for such excess Units shall be separately negotiated and not subject to the Prices and terms set forth in this VPA.

ARTICLE 5: PURCHASE OF PRODUCTS BY WDC

5.1 FORECASTS AND PLANNING SCHEDULES. By the Effective Date, WDC shall provide to Komag a current written forecast of demand for Products WDC expects to purchase during the first twelve months of the term of this VPA. Thereafter during the term of this VPA, on a monthly basis, WDC shall provide an updated forecast for any quantities of such Product WDC expects to purchase in the following twelve months. The most recently issued forecast will supersede all previous forecasts. No less than five Days from receipt of each of the monthly WDC forecasts, Komag shall confirm supply for a rolling three month period (current month plus two). During the term of this VPA on a monthly basis, Komag shall provide to WDC a current written summary of the Product finished goods inventory ("FGI") intended for WDC. This summary shall list by Komag manufacturing site and JIT Hub location the amounts and types of FGI being held by Komag for each of WDC's Programs.

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5.2 ISSUING PURCHASE ORDERS AND PULL REQUESTS. WDC shall, at least 30 Days before the beginning of each Fiscal Quarter, submit to Komag a Purchase Order for such Fiscal Quarter for all Units WDC has forecasted it may require during such Fiscal Quarter. No less than two Business Days after receipt of each Purchase Order, Komag shall issue an acknowledgement confirming the quantity and other terms thereof. WDC shall transmit a Pull Request by facsimile or other agreed upon means to communicate to Komag, at the applicable JIT Hub, the part number, quantity and Delivery Date and time of each Product required. WDC's transmission of a Pull Request is authorization for Komag to ship and invoice WDC against the Purchase Order for the part numbers and quantities set forth in the Pull Request. Komag shall deliver Product from the JIT Hub upon receipt of the Pull Request, in accordance with Lead Times. WDC and Komag shall, prior to the commencement of each Fiscal Quarter, establish mutually acceptable Lead Times for Pull Requests, which Lead Times shall in no event exceed eight hours.

5.3 KOMAG PRODUCTION AND INVENTORY. During the term of this VPA, WDC will be issuing forecasts and Purchase Orders and Komag will be producing FGI to meet WDC's needs shown in the Purchase Orders. WDC's forecast for a certain Fiscal Quarter are not commitments by WDC to buy a specific amount of Product in a specific period of time. Komag will use WDC's forecast for planning of its production capacity to support WDC. Unless given written authorization by a WDC Materials manager to make a temporary exception, Komag shall manage and limit its production of FGI so that on any given date FGI does not exceed WDC's most current forecasted requirements of FGI for the subsequent four week period (the "TARGET FGI"). Komag shall maintain Products in inventory for WDC at locations close to WDC factories ("JIT HUBS"). Provided WDC has issued a relevant Purchase Order, Komag shall, promptly after the Effective Date, use commercially reasonable efforts to establish a level of Product inventory for each Program at each JIT Hub equal to the JIT Hub Inventory Watermark and to replenish each reduction requested by WDC from such inventory within four weeks from the date of such reduction.

5.4 END OF LIFE. WDC shall use commercially reasonable efforts to notify Komag as soon as possible before the termination of each Program.

5.5 LIABILITY ON CANCELLATION. Subject to WDC's obligations under Section 4, WDC shall have the right to cancel Purchase Orders for Products (except the final Purchase Order issued under Section 9.1) , in whole or in part, placed in accordance with the provisions of this VPA upon written notice to Komag. WDC's maximum liability to Komag for FGI upon such cancellation shall be limited to ["**"].

Notwithstanding the foregoing, during the ramp period of any Product, not to exceed six weeks, the parties shall first meet and agree on the number equal to "IW" for the purpose of calculating liability under this Section 5.5 for any cancellation of a Purchase Order which occurs during any portion of such a ramp period. Komag shall (i) use all commercially reasonable efforts to

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find a substitute buyer and mitigate any potential loss; (ii) participate in an audit of lead time efficiency as reasonably requested by WDC; and (iii) negotiate with WDC to adjust the above formula for reductions in the lead time to fabricate Media that are achieved by Komag.

ARTICLE 6: PRICE AND PAYMENT TERMS FOR PRODUCTS

6.1 PRODUCT PRICING. The initial Unit Prices WDC will pay for Products purchased during the first ["**"] months of the term of this VPA are set forth in EXHIBIT B. Commencing with the first ["**"] after such ["**"] period, the parties shall, beginning no later than ["**"] Days before the beginning of such ["**"], negotiate Prices for the Products on a ["**"] basis (the "PRICES"). The parties shall conclude such negotiations no later than ["**"] Days before the beginning of such ["**"]. Komag shall, no later than ["**"] Days before the beginning of each such ["**"], notify WDC of the agreed-upon Prices applicable to such ["**"] by means of a pricing letter. ["**"] Notwithstanding the foregoing, the parties agree that the review of such prices and terms shall not require the parties ["**"]. ["**"].

6.2 PRICING DISPUTES. In the event the parties cannot agree upon pricing as described in Section 6.1, either party may, upon written notice to the other, submit such dispute to the Chief Executive Officer of Komag; and the Chief Executive Officer of WDC, or their respective designees, who shall meet to attempt to resolve the dispute by good faith negotiations. In the event the parties are unable to come to agreement upon Prices within 5 Days after such notice is given, either party may proceed with arbitration as follows. The parties will submit the matter of pricing to binding arbitration in San Francisco, California, in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). Each party shall appoint one arbitrator, and the two arbitrators thus appointed will appoint a third arbitrator. The parties shall instruct the arbitrators to make a determination of pricing using the standards set forth in Section 6.1, but in no event outside of the range of the "bid" and "asked" prices established by the respective positions of the parties in the last good faith negotiations prior to referral to arbitration. The parties shall also instruct them to come to a decision within 20 Days after submission of the dispute to arbitration. During the pendency of such arbitration, the Prices in effect immediately before the arbitration shall remain in effect. If a price change is awarded, the party, if any, which owes a balance shall pay such balance; and in the event such party fails to pay such balance within ten Days after the date of the award, interest will accrue beginning ten Days after the date of the award, at the maximum rate permitted by law in California. Each party shall bear its own arbitration costs and expenses; provided, however, that the arbitrators may modify the allocation of fees, costs and expenses in the award in those cases where fairness dictates other than each party bearing its own fees, costs and expenses. The award shall be final and binding on the parties, and judgment on the award may be entered in and enforced by any court of competent jurisdiction.

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6.3 TAXES AND DUTIES. Unless otherwise specifically provided herein, the amount of any present or future sales, revenue, excise or other tax applicable to the Products, will be added to the Price and will be paid by WDC, or in lieu thereof WDC shall provide Komag with a tax exemption certificate acceptable to the taxing authorities. In the event Komag is required to pay any such tax, fee, or charge, at the time of sale or thereafter, WDC shall reimburse Komag therefor. Notwithstanding the foregoing, WDC will not be responsible for any taxes on Komag's income.

6.4 TAX MINIMIZATION. The parties acknowledge that Komag's Malaysian manufacturing operations, including the tax holiday status of such operations, provide a path to the industry's lowest cost structure. To ensure that both parties derive benefit from this advantageous manufacturing location, the parties shall adopt business practices (e.g. sales terms, title passage, importer of record, and warehousing practices) that maximize the benefits of Komag's tax holiday position in Malaysia to the extent not inconsistent with WDC's reasonable business objectives.

6.5 PAYMENT TERMS. For shipments through Komag's designated JIT Hub, Komag shall invoice WDC upon delivery of Product to the receiving dock of WDC's manufacturing locations in Malaysia and Singapore. For shipments direct to WDC, Komag will invoice upon shipment. Terms for payment of all invoices will be net ["**"] Days from date of invoice. In the event payment is not received by Komag within such period, Komag shall notify WDC and WDC shall make prompt payment of the amount due. WDC will be liable for interest on any overdue payment under any such invoice, up to the maximum legal rate in California. Notwithstanding the foregoing, payment terms shall be payment in advance in the event of the bankruptcy or insolvency of WDC or in the event any proceeding is brought (a) voluntarily by WDC under the bankruptcy or insolvency laws; or (b) involuntarily against WDC under the bankruptcy or insolvency laws, and not dismissed within 90 Days.

6.6 LATE PAYMENTS. If (a) WDC's account with Komag is past due in any amount, by more than ["**"] Days; (b) WDC does not make payment in advance as required under Section 6.5; or (c) if WDC's account with Komag is past due in any amount in excess of the greater of (i) \$["**"]; and (ii) ["**"]% of WDC's total accounts receivable balance under this Agreement; by more than ["**"] Days; then Komag may discontinue shipping Products upon ["**"] Days' advance written notice to WDC and opportunity for WDC to cure within such ["**"]-Day period. Units that Komag does not ship in accordance with this Section 6.6 shall not count towards the Units purchased by WDC to fulfill its Purchase Requirements, until such Units are shipped by Komag. The parties agree that a senior officer designated by each party will meet to resolve any issues relating to overdue amounts.

ARTICLE 7: SHIPMENT AND DELIVERY OF PRODUCTS

7.1 SHIPMENT OF PRODUCT. Except as otherwise specified with respect to direct shipments under Section 6.5, Delivery will be made DDU (i.e., the ICC standard shipping term for delivery duty unpaid), and liability for loss or damage to Products will pass to WDC upon Komag's delivery

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of the Products to WDC. As between the parties, Komag will bear the cost for insurance relating to delivery of the Products. For deliveries within Malaysia or Singapore, Western Digital Malaysia SDN. BHD. or Western Digital (Singapore Pte. Ltd.), respectively, will be the "importer of record" for GST purposes. The Products shall be delivered to WDC from a Komag JIT Hub to a WDC factory. Komag may deliver the Products in installments subject to Section 5.2. Unless otherwise agreed, all Products will be packaged, and packed in accordance with Komag's normal practices. All Product packages shall be labeled in accordance with applicable customs regulations. Komag may ship, determine freight forwarder, and provide delivery support by the method it deems most advantageous. WDC shall ensure that the freight forwarder selected by Komag may use WDC's "Manufacturer's Export Status" for shipments on behalf of WDC to Singapore, so long as the parties mutually agree. Transportation charges are included in the Unit Price. Komag shall deliver, upon request from WDC, appropriate import certificates for duties paid on Media purchased from Komag, imported by Komag into the United States and delivered to WDC in the United States.

7.2 ON TIME DELIVERY. Komag shall use commercially reasonable efforts to maintain 100% on-time delivery of each Pull Request from a JIT Hub.

7.3 LATE DELIVERY. Komag shall notify WDC immediately if for any reason Komag fails to comply or anticipates that it may fail to comply with the terms of a Pull Request (including, but not limited to, failure to meet a Delivery Date or delivery of less than the ordered Units). In the event of a late delivery, the parties will cooperate in good faith to minimize the disruption caused to WDC by such late delivery.

7.4 EXPORT REGULATIONS. WDC and Komag shall comply with all export control laws and regulations applicable to the export or reexport of Products or any related technology. The party undertaking such export or reexport shall be responsible for obtaining any required documents, authorizations and approvals prior to any such export or reexport.

ARTICLE 8: WARRANTIES AND INTELLECTUAL PROPERTY INFRINGEMENT

8.1 WDC GENERAL WARRANTIES. WDC has the corporate power and authority to own its properties and to carry on its business as now being conducted and as contemplated to be conducted. WDC is duly qualified to do business and in good standing as a foreign corporation under the laws of each jurisdiction in which the failure to be so qualified would have a material adverse effect on WDC.

8.2 PRODUCT LIMITED WARRANTY. Komag's warranty for Products under this Agreement, and the remedies for breach of such warranty, will be as set forth in EXHIBIT D.

8.3 DISCLAIMER. THE WARRANTIES AND OBLIGATIONS OF THIS SECTION 8 AND EXHIBIT D WILL BE EXCLUSIVE AND IN LIEU OF ANY AND ALL OTHER

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WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT, ALL OF WHICH ARE HEREBY EXPRESSLY DISCLAIMED.

8.4 INFRINGEMENT INDEMNITY

8.4.1 INDEMNIFICATION. Komag shall defend any claim, suit or proceeding brought against WDC to the extent such suit or proceeding is based on a claim that any Product furnished hereunder, alone and not in combination with any other product, constitutes an infringement of any U.S. patent or U.S. copyright, provided WDC gives Komag prompt notice of any such claim, suit or proceeding, in writing and authorizes Komag to settle or defend any such claim, suit or proceeding and assists Komag in so doing (at Komag's expense) upon request by Komag. Komag shall pay WDC's reasonable attorneys fees and all damages and costs awarded against WDC arising out of such claim, suit or proceeding.

8.4.2 LIMITED REMEDIES. If the use of a Product is enjoined, Komag shall, in its sole discretion and at its own expense, either (a) procure for WDC the right to continue using such Product; (b) replace same with a noninfringing product; (c) modify the Product so that it becomes noninfringing; or (d) if Komag is unable to reasonably do any of the above, refund the Price for such Product.

8.4.3 EXCLUSIONS. Komag shall not be liable for, and WDC shall indemnify, defend and hold Komag harmless from, any expenses, damages, costs or losses resulting from any suit or proceeding based upon a claim arising from (a) compliance with WDC's designs, specifications, or instructions; (b) a modification of the Product by a party other than Komag; (c) the use of any Product or part thereof furnished hereunder in combination with any other product;; or (d) intellectual property infringements to the extent arising out of the use of the Acquired Assets (as such term is defined under the Asset Purchase Agreement), or any technology or intellectual property licensed or otherwise provided to Komag in connection with the Acquired Assets under the Asset Purchase Agreement, if such infringements would not have arisen using the assets, technology and intellectual property used by Komag prior to the Effective Date. WDC shall pay Komag's reasonable attorneys fees and all damages and costs awarded against Komag arising out of such claim, suit or proceeding.

8.4.4 LICENSE. Sale of any Product or any part thereof by Komag does not confer upon WDC any license under any patent rights or copyrights.

8.4.5 SOLE LIABILITY. THIS PROVISION 8.4 IS IN LIEU OF ALL OTHER EXPRESS, IMPLIED OR STATUTORY WARRANTIES AGAINST INFRINGEMENT AND WILL BE THE SOLE AND EXCLUSIVE REMEDY FOR INTELLECTUAL PROPERTY INFRINGEMENT OF ANY KIND. IN NO EVENT SHALL KOMAG'S TOTAL LIABILITY FOR

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SUCH INFRINGEMENT EXCEED THE AGGREGATE SUM PAID BY WDC FOR THE ALLEGEDLY INFRINGING PRODUCTS.

ARTICLE 9: TERM AND TERMINATION

9.1 TERM. This VPA will continue in force for an initial term of three years after the Effective Date, and will terminate at the end of such initial term unless otherwise agreed by the Parties in writing. In the event WDC does not wish to renew the term of this Agreement after such initial term, WDC shall notify Komag no later than 30 Days before the beginning of the final Fiscal Quarter of such initial term, and issue to Komag a binding final Purchase Order for such Fiscal Quarter.

9.2 TERMINATION FOR CAUSE. Either party may terminate this VPA in the event of a Material Default of this VPA by the other party, upon notice to such other party, which notice must describe the reason for such termination and must specify the termination date, which termination date must be no earlier than 5 Days after the date of such notice. The parties acknowledge that neither party will have the right to terminate this Agreement due to any breach of this Agreement other than a Material Default; and in the case of such other breach, subject to Sections 10.2 and 11.6, the non-breaching party's only remedy under this Agreement will be an action for damages.

9.3 TERMINATION FOR INSOLVENCY. This VPA may be terminated by either party by notice to the other party upon (i) the commencement by the other party of a voluntary or involuntary proceeding under any federal, state, provincial or foreign bankruptcy law or similar law which is not dismissed within 90 Days; (ii) the appointment for the other party of a receiver, trustee or similar official or a general assignment for the benefit of such party's creditors; (iii) the winding up or liquidation of the other party; or (iv) a party becomes unable to pay its debts either because it is subject to a Suspension of Payments order, bankruptcy, or other insolvency proceeding. In the case of (i) to (iv) above, termination may also be effected by serving notice on the liquidator, administrator, or receiver, as the case may be.

9.4 RIGHTS UPON TERMINATION. Upon termination, Komag shall complete and WDC shall pay for all Products in accordance with Section 6.5 and Komag shall continue to perform its obligations with respect to Replacement Products under EXHIBIT D. Komag and WDC shall cooperate to perform an orderly Disentanglement following termination.

9.5 SURVIVAL. The following provisions will survive the termination or expiration of this VPA: Articles 1, 2, 8, 9.4, 10, 11, and 12, as well as any obligations arising before the effective date of termination or expiration.

ARTICLE 10: LIMITATION OF LIABILITY

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10.1 LIMITATION OF LIABILITY. EXCEPT FOR ARTICLE 11 (CONFIDENTIALITY), NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR CONSEQUENTIAL, INDIRECT, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

10.2 PERFORMANCE. Notwithstanding the foregoing, in light of the fact each of the parties entered into the Asset Purchase Agreement and this VPA in reliance on the full and faithful performance by the other party of its obligations (including but not limited to purchase and sale obligations) hereunder, the parties agree that damages would be an inadequate compensation for the breach by the parties of such obligations and accordingly, upon any such breach, in addition to monetary damages, a party shall be entitled to obtain an order for specific performance of such obligations at any court having jurisdiction over the other party.

10.3 YEAR 2000 LIABILITY. Except for WDC's right to purchase from other suppliers as provided under Section 4.3, in no event shall Komag have any liability for any failure to provide Products hereunder prior to July 1, 2000, if such failure is attributable to the failure of any Acquired Assets (as such term is defined in the Asset Purchase Agreement) to be year 2000 compliant.

ARTICLE 11: CONFIDENTIALITY

11.1 "CONFIDENTIAL INFORMATION" means any information disclosed by one party (the "DISCLOSING PARTY") to the other (the "RECEIVING PARTY") in relation to this VPA, which, if in written, graphic, machine-readable or other tangible form is marked as "Confidential" or "Proprietary," or which, if disclosed orally or by demonstration, is identified at the time of initial disclosure as confidential and reduced to a writing marked "Confidential" and delivered to the Receiving Party within 30 Days of such disclosure.

11.2 EXCLUSIONS. Notwithstanding Section 11.1, Confidential Information will exclude information that the Receiving Party can demonstrate:

11.2.1 was independently developed by the Receiving Party without any use of the Disclosing Party's Confidential Information or by the Receiving Party's employees or other agents (or independent contractors hired by the Receiving Party) who have not been exposed to the Disclosing Party's Confidential Information;

11.2.2 becomes known to the Receiving Party, without restriction, from a source other than the Disclosing Party without breach of this VPA and that had a right to disclose it;

11.2.3 was in the public domain at the time it was disclosed or becomes in the public domain through no act or omission of the Receiving Party; or

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11.2.4 was rightfully known to the Receiving Party, without restriction, at the time of disclosure.

11.3 COMPELLED DISCLOSURE. If a Receiving Party believes that it will be compelled by a court or other authority to disclose Confidential Information of the Disclosing Party, it shall give the Disclosing Party prompt written notice so that the Disclosing Party may take steps to oppose such disclosure, and the Receiving Party shall assist in opposing such disclosure at the Disclosing Party's expense.

11.4 CONFIDENTIALITY OBLIGATION. During the term of this VPA and for a period of five years thereafter, the Receiving Party shall keep such Confidential Information in strict confidence and shall not disclose such Confidential Information to any third party without prior written consent of the Disclosing Party.

11.5 CONFIDENTIALITY OF AGREEMENT. Each party agrees that the terms and conditions, but not the existence, of this VPA will be treated as the other's Confidential Information and that no reference to the terms and conditions of this VPA or to activities pertaining thereto can be made in any form of public or commercial advertising without the prior written consent of the other party; provided, however, that each party may disclose the terms and conditions of this VPA: (i) subject to the provisions of Section 11.3 as required by any court or other governmental body; (ii) as otherwise required by law; (iii) to legal counsel of the parties; (iv) in connection with the requirements of a public offering, secondary offering, debt offering, or securities filing of the parties, or otherwise as obligated by law; (v) in confidence, to accountants, banks, and financing sources and their advisors; or (vi) in confidence, in connection with the enforcement of this VPA or rights under this VPA.

11.6 REMEDIES. Unauthorized use by a party of the other party's Confidential Information will diminish the value of such information. Therefore, if a party breaches any of its obligations with respect to confidentiality or use of Confidential Information hereunder, the other party will be entitled to seek equitable relief to protect its interest therein, including injunctive relief, as well as money damages.

11.7 NON-DISCLOSURE AGREEMENTS. Each party shall obtain the execution of proprietary nondisclosure agreements with its Affiliates, including but not limited to the party's and/or Affiliates' respective agents and consultants having access to Confidential Information of the other party, shall diligently enforce such agreements with respect to the Confidential Information, and shall exercise due care to control the actions of such Affiliates, employees, agents and consultants in this respect so long as they have a working relationship with the party obligated hereunder to obtain such nondisclosure agreements.

ARTICLE 12: GENERAL

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12.1 GOVERNING LAW AND JURISDICTION. This VPA will be interpreted, and the rights and liabilities of the parties hereto determined, in accordance with the laws of the State of California applicable to agreements executed, delivered and performed within such State, without regard to the principles of conflicts of laws thereof. Each of the parties hereby consents to the jurisdiction of any state or federal court located within the county of Santa Clara in the State of California (except for resolution of pricing disputes as described in Section 6.2), and each of the parties hereby: (i) waives any objection to venue of any action instituted under this VPA, and (ii) consents to the granting of such legal or equitable relief as is deemed appropriate by any aforementioned court.

12.2 FORCE MAJEURE. A defaulting party shall provide the nondefaulting party immediate notice of any anticipated delay or failure of compliance due to a Force Majeure Event; provided, however, that any such act will not relieve the defaulting party's obligations hereunder.

12.3 TRADEMARKS. Nothing in this VPA gives either party a right to use the other party's name, trademark(s), or trade name(s), directly or indirectly, without the other party's prior written consent, except as may be required by applicable law or court order. In such a case, the party required to disclose such information shall provide prompt notice of such requirement in order that the other party may seek appropriate protective orders.

12.4 ASSIGNMENT. Except as set forth in this Section 12.4, neither this Agreement, nor any of the rights or obligations hereunder, may be assigned, transferred, subcontracted or delegated by a party hereto to any third party, including without limitation, by operation of law or pursuant to a Change of Control (as defined below). Notwithstanding the foregoing, (a) Komag may assign this Agreement, and the rights and obligations hereunder, without the prior consent of WDC, in connection with a Change of Control, except to a Prohibited Assignee (as defined below); (b) Komag may assign all or part of this Agreement, or the rights and obligations hereunder, without the prior consent of WDC, to Komag USA (Malaysia) SDN; and (c) WDC may assign this Agreement, and the rights and obligations hereunder, without the prior consent of Komag, to a third party in connection with a Change of Control; so long as WDC assigns all obligations under this Agreement to any party that succeeds to all or substantially all of WDC's disk drive production business. For purposes of this Section 12.4, "CHANGE OF CONTROL" shall mean (i) any sale, lease, exchange or other transfer (in one transaction or series of transactions) of all, or substantially all, of the assets of such party, (ii) any consolidation or merger or other combination of a party in which such party is not the continuing or surviving corporation or pursuant to which shares of such party's common stock would be converted into cash, securities or other property (other than a merger of such party in which the holders of such party's common stock immediately prior to the merger hold at least a majority of the outstanding securities of the combined entity), or (iii) any transaction (or series of related transactions) pursuant to which any person (as defined in Section 13 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT")), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of ["**"]% or more of such party's

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outstanding common stock. For purposes of this Section 12.4, "PROHIBITED ASSIGNEE" shall mean any third party who (x) ["**"] Any purported assignment of this VPA or the rights or obligations of a party under this VPA in violation of this Section 12.4 shall be null, void and of no further force or effect and shall constitute a Material Default.

12.5 SEVERABILITY. If any of the provisions of this VPA are held by a court or other tribunal of competent jurisdiction to be unenforceable, the remaining portions of this VPA will remain in full force and effect.

12.6 FAILURE TO ENFORCE. The failure of either party to enforce at any time or for any period of time the provisions of this VPA will not be construed to be a waiver of such provisions or of the right of such party to enforce each and every provision of this VPA in the future.

12.7 AGENCY. This VPA does not create a principal to agent, employer to employee, partnership, joint venture, or any other relationship except that of independent contractors between Komag and WDC.

12.8 REQUEST IN WRITING. All requests such as Pull Requests, acceptances/rejections, notices, must be made or confirmed in writing. Such writings must take the form of electronic mail (receipt confirmed), facsimile (receipt-confirmed) and/or posted letter (return-receipt).

12.9 COUNTERPARTS. This VPA may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will be considered one and the same instrument.

12.10 NOTICES. Except as otherwise provided herein, all notices hereunder will be deemed given if (a) in writing and delivered personally; or (b) sent by facsimile transmission that is confirmed by return facsimile or e-mail; to the parties at the following addresses (or at such other addresses as will be specified by like notice):

(i) if to WDC, to:

Western Digital Corporation
8105 Irvine Center Drive
Irvine CA 92618
Attention: Michael A. Cornelius,
VP, Law & Administration, Secretary
Fax No.: (949) 932-7837

(ii) if to Komag to:

Komag, Incorporated

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1704 Automation Parkway
San Jose, California 95131

Attention: Chief Financial Officer
Fax No.: 408 944-9234

Any notice given by mail will be effective when received. Any notice given by electronic mail or facsimile transmission will be effective when the appropriate electronic mail or facsimile transmission acknowledgment is received.

12.11 AMENDMENTS. This VPA may only be amended in writing signed by authorized representatives of each of the parties. To be effective, such amendments must specifically reference this VPA.

12.12 COMPLETE AGREEMENT. This VPA, Exhibits, and specific Purchase Orders and Pull Requests set forth the complete agreement between the parties regarding their subject matter and replace all prior or contemporaneous communications, understandings or agreements, written or oral, about this subject.

12.13 PERFORMANCE DURING PENDENCY OF DISPUTES. If a dispute arises between the parties, regardless of whether such dispute requires the use of the arbitration procedures described in Section 6.2, subject to the terms and conditions of this Agreement, (a) in no event nor for any reason shall Komag interrupt the provision of Products to WDC, delay manufacture or delivery of Products or perform any other action that prevents, slows down, or reduces in any way the provision of Products or WDC's ability to conduct its business; and (b) each party shall continue to perform its obligations under this Agreement, unless: (x) authority to do so has been granted by the other party or conferred by a court of competent jurisdiction; or (y) this Agreement has been terminated pursuant to Section 9.2 or 9.3 and a Disentanglement has occurred.

IN WITNESS WHEREOF, the parties have caused this VPA to be signed and accepted by their duly authorized representatives, effective as of the Effective Date.

Western Digital Corporation,
a Delaware corporation.

Komag, Incorporated,
a Delaware corporation

/s/ A. Keith Plant

/s/ Stephen Johnson

Name: _____

Name: _____

"***" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

Title:_____

Title:_____

 "[***]" INDICATES REDACTED INFORMATION FOR
 WHICH CONFIDENTIAL TREATMENT IS REQUESTED

EXHIBIT A

WDC FISCAL QUARTERS

FY '99 MONTH	START DATE	END DATE	WEEKS IN QTR.

Q4			14
April	03/28/99	04/24/99	4
May	04/25/99	05/29/99	5
June	05/30/99	07/03/99	5
FY '00 MONTH	START DATE	END DATE	WEEKS IN QTR.

Q1			13
July	07/04/99	07/31/99	4
August	08/01/99	08/28/99	4
September	08/29/99	10/02/99	5
Q2			13
October	10/03/99	10/30/99	4
November	10/31/99	11/27/99	4
December	11/28/99	01/01/00	5
Q3			13
January	01/02/00	01/29/00	4
February	01/30/00	02/26/00	4
March	02/27/00	04/01/00	5
Q4			13
April	04/02/00	04/29/00	4
May	04/30/00	05/27/00	4
June	05/28/00	07/01/00	5

 "[***]" INDICATES REDACTED INFORMATION FOR
 WHICH CONFIDENTIAL TREATMENT IS REQUESTED

FY '01 MONTH	START DATE	END DATE	WEEKS IN QTR.
-----	-----	-----	-----
Q1			13
July	07/02/00	07/29/00	4
August	07/30/00	08/26/00	4
September	08/27/00	09/30/00	5
Q2			13
October	10/01/00	10/28/00	4
November	10/29/00	11/25/00	4
December	11/26/00	12/30/00	5
Q3			13
January	12/31/00	01/27/01	4
February	01/28/01	02/24/01	4
March	02/25/01	03/31/01	5
Q4			13
April	04/01/01	04/28/01	4
May	04/29/01	05/26/01	4
June	05/27/01	06/30/01	5

FY '02 MONTH	START DATE	END DATE	WEEKS IN QTR.
-----	-----	-----	-----
Q1			13
July	07/01/01	07/28/01	4
August	07/29/01	08/25/01	4
September	08/26/01	09/29/01	5
Q2			13
October	09/30/01	10/27/01	4
November	10/28/01	11/24/01	4
December	11/25/01	12/29/01	5
Q3			13
January	12/30/01	01/26/02	4
February	01/27/02	02/23/02	4
March	02/24/02	03/30/02	5

"["**"]" INDICATES REDACTED INFORMATION FOR
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Q4			13	
April	03/31/02	04/27/02		4
May	04/28/02	05/25/02		4
June	05/26/02	06/29/02		5

Note: WDC's fiscal year is reported in a 52/53-week period and will end on the Saturday closest to June 30. Each fiscal year will be divided into four quarters. Each quarter will consist of three months, the first and second of which will be four weeks long and the last, five weeks. Each week will begin on Sunday and end on Saturday.

"***" INDICATES REDACTED INFORMATION FOR
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EXHIBIT B
INITIAL UNIT PRICES

WD FISCAL QUARTER:
FISCAL QUARTER ENDING [***] FISCAL QUARTER ENDING [***]

DOUBLE SIDED DISKS ("DSD"):

[***]

SINGLE SIDED

[***]

Notes:

1. Above prices are based on WDC specification and Komag specification reviews that exist as of 3/5/99.
2. The above prices are dependent on terms listed herein.

"***" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

EXHIBIT C
PRICES FOR QUALIFICATION SAMPLE PRODUCTS

YEAR	1999	2000	2001
[***]	[***]	[***]	[***]

"["**"]" INDICATES REDACTED INFORMATION FOR
WHICH CONFIDENTIAL TREATMENT IS REQUESTED

EXHIBIT D

SUPPLIER WARRANTY AND REPLACEMENT PRODUCT TERMS

This EXHIBIT D sets forth the terms of warranty for Products sold by Komag to WDC under the VPA. Further, this EXHIBIT D sets forth certain of the terms for Komag's supply to WDC of Products used by WDC to replace Product which may have failed, or which may be required due to failure of WDC disk drives, or Components of WDC's disk drives other than the Products. All terms not defined in this EXHIBIT D will have the meaning assigned them in the VPA. The terms and conditions of this EXHIBIT D will supersede any conflicting terms in the VPA, but only with respect to Replacement Products.

ARTICLE I: DEFINITIONS

1.1 "REPLACEMENT PRODUCT" means a Unit ordered by WDC, to replace another Unit, which is identical to the Unit being replaced in design, process, and location, and either (a) due to a defect in manufacture or workmanship, did not, at the time of delivery to WDC, conform to the Specifications in effect at the time the Purchase Order for such Unit was issued; or (b) due to any other cause, including without limitation a failure of or damage by WDC disk drives or any Components thereof, fails or no longer conforms to the Specifications in effect at the time the Purchase Order for such Unit was issued.

1.2 "END OF LIFE" of a WDC Program means the earlier of (a) the beginning of the first of two sequential Fiscal Quarters when WDC discontinues high volume purchasing of a Product for such Program, where high volume is defined as greater than ["**"] Units per Fiscal Quarter; or (b) when WDC first begins to purchase a Product used in such Program primarily for disk drive repair purposes.

1.3 "REPLACEMENT PRODUCT PERIOD" means the relevant Replacement Product Period as set forth in Section 3.3.

ARTICLE II: LIMITED WARRANTY

2.1 LIMITED WARRANTY. Komag warrants that during the period of one year after the WDC disk drive build date (but in no event later than 15 Days after the date of Komag's invoice) for a Unit of a Product ("WARRANTY TERM"), each such Unit shall (a) be new and conform to the Specifications in effect at the time the Purchase Order for such Unit is issued; and (b) be free from defects in materials, workmanship and title under normal use and operation (the "LIMITED WARRANTY"). WDC's sole remedy for a breach of the foregoing warranty will be limited to Komag issuing a credit to WDC in accordance with the terms set forth in Section 3.8. OTHER THAN AS SET FORTH IN

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THIS SECTION 2.1, KOMAG DISCLAIMS ANY WARRANTY, EXPRESS, IMPLIED OR STATUTORY, INCLUDING WITHOUT LIMITATION THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THE WARRANTY IN THIS SECTION 2.1 NEITHER ASSUMES NOR AUTHORIZES ANY OTHER PERSON TO ASSUME FOR KOMAG ANY OTHER LIABILITIES IN CONNECTION WITH THE SALE OF THE PRODUCTS. The aforesaid warranty and WDC's remedies thereunder are solely for the benefit of WDC and its subsidiaries and will not be extended or construed to extend to any other entity whatsoever.

2.2 LIMITATION OF LIABILITY. EXCEPT AS SPECIFICALLY PROVIDED IN SECTION 5.2 OF THIS EXHIBIT D, INDEPENDENTLY OF ANY OTHER REMEDY LIMITATION HEREOF AND NOTWITHSTANDING ANY FAILURE OF THE ESSENTIAL PURPOSE OF ANY SUCH LIMITED REMEDY, KOMAG WILL NOT BE LIABLE FOR ANY LIABILITY UNDER THIS EXHIBIT D, INCLUDING WITHOUT LIMITATION LOST PROFITS, COST OF PROCUREMENT OF SUBSTITUTE GOODS OR FOR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, INCLUDING WITHOUT LIMITATION LOSS OF DATA HOWEVER CAUSED AND UNDER ANY THEORY OF LIABILITY RESULTING FROM THIS EXHIBIT D OR FROM THE USE OF THE PRODUCTS IN ANY MANNER, AND WHETHER OR NOT KOMAG HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

2.3 WARRANTY PROCEDURE. The parties agree to use the process described in the Warranty Verification and Disposition flow chart set forth in ATTACHMENT 1 to manage and dispose of the Products returned to WDC under warranty.

ARTICLE III: REPLACEMENT PRODUCTS

3.1 PRICES. On a quarterly basis, the parties shall agree to Replacement Product prices for the upcoming Fiscal Quarter, within the parameters set forth in ATTACHMENT 2 hereto.

3.2 PROCEDURE FOR RETURNS. WDC shall return or destroy, according to Komag's instruction, all Units for which WDC seeks replacement by Komag, whether or not such Units are covered by the Limited Warranty. Komag shall issue an RMA for all Units WDC wishes to return.

3.3 REPLACEMENT PRODUCT PERIOD. During the Replacement Product Period for each Product, Komag shall make available Replacement Products to WDC under the terms of this EXHIBIT D. The Replacement Product Periods for the Products and Programs listed on ATTACHMENT 2 will be as indicated therein. For any Products or Programs whose Replacement Product Period is not listed therein, Komag shall provide

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Replacement Products for two years following the End of Life of the applicable Program. Notwithstanding the foregoing, (a) upon the occasion of a major process change, or a change that requires Komag to maintain a set of equipment which is not being used for volume production of other Komag products; or (b) if Komag intends to discontinue operation of a factory or production line for such Product or Program; then (w) Komag shall notify WDC as soon in advance as reasonably practical; (x) the parties shall meet and agree on a one-time, firm, non-cancelable purchase order for such Replacement Products; (y) notwithstanding the provisions of Section 4.2 of this EXHIBIT D, such purchase order may be for less than the minimum of Units required in Section 4.2 of this EXHIBIT D, but the maximum prices and maximum price increases of ATTACHMENT 2 will nevertheless apply; and (z) WDC shall purchase all the Units ordered thereunder within an agreed-upon period of time. Thereafter, Komag shall have no obligation to supply such Replacement Products. The parties acknowledge that for the Products listed in ATTACHMENT 2, there may be occasions which, due to material changes in Komag's production process (such as the shift from Tucson / Phase 0 to Chandler / ILE; or aluminum substrate to glass substrate) may require a change in the Replacement Product Period, and if so, the parties shall negotiate in good faith a Replacement Product Period that reflects such material change.

3.4 TRACKING. The parties acknowledge that pursuant to the Asset Purchase Agreement, at Closing (as such term is defined in the Asset Purchase Agreement), Komag will take over from WDC production of certain Product inventory and WIP. On or before Closing, WDC shall develop a method to track Media made by those processes used by WDC at its "Santa Clara Media Operation" prior to the Closing ("WDC PROCESSES"), sufficient to differentiate between Media made by the WDC Processes prior to Closing (such units, "SANTA CLARA PRE-CLOSING UNITS") and Product made by the WDC Processes after Closing. Such method will include ["**"] Until WDC establishes such method of tracking, all Units that Komag and WDC reasonably determine are made using WDC Processes will be deemed Santa Clara Pre-Closing Units.

3.5 SUPPLY OF REPLACEMENT PRODUCT FOR SANTA CLARA PRE-CLOSING UNITS. For Santa Clara Pre-Closing Units of Products included in ATTACHMENT 2, Komag will supply Replacement Product as indicated therein. The terms of this EXHIBIT D with respect to forecasting, placement of purchase orders and pricing will apply to such Replacement Product. Notwithstanding the foregoing, nothing in this VPA shall require Komag to supply the following Products to WDC: ["**"].

3.6 CALCULATING THE PERCENTAGE OF WDC LIABILITY. The parties acknowledge that Units may not conform to the Specifications due to various causes, including without limitation (a) defects covered by the Limited Warranty and occurring within the Warranty Term; (b) damage to such Units caused by WDC disk drives or by Components thereof other than the Products; and (c) defects or damage not occurring within the Warranty Term. For Units that do not conform to the Specifications, for whatever reason, during

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the Replacement Product Term, WDC shall provide reasonably sufficient data on Units that are removed from failed drives to assess (x) cause of failure and (y) whether the Units are within the Warranty Term. By mutual engineering analysis of such data, WDC and Komag shall agree on the percentage of WDC's liability ("%BL") for such failures. Such determination will be based on a percentage equal to the number of Units of a Product that fail, due to all causes other than failure of the Units to conform to the Limited Warranty during the Warranty Term, divided by the total Units of a Product that fail. %BL will be determined for each Program through the use of the Media Warranty Verification and Disposition Process specified in ATTACHMENT 1. Any Unit that is modified, misused, or damaged after delivery of such Unit to WDC will be included in the numerator of fraction that determines the %BL.

3.7 PRICING FOR REPLACEMENT PRODUCT. Prices for Replacement Products ("BASE LINE PRICE" or "BP"), whether such Products are subject to the Limited Warranty or not, will be ["**"].

3.8 CREDIT VALUE. The credit value ("CV") will be calculated for each Product and Program as shown below. ["**"]

3.9 ISSUANCE OF CREDIT VOUCHER. No later than seven days after the end of each month, Komag shall issue to WDC a credit voucher in the amount of the CV for Units returned during such month.

ARTICLE IV: FORECASTING, PURCHASE ORDERS AND FULFILLMENT

4.1 REPLACEMENT PRODUCT FORECAST. Each month commencing on the Effective Date, for each Product, WDC shall provide Komag with a forecast of WDC's requirements for each Replacement Product during the Replacement Product Period, which forecast must be based on an estimated failure rate for the relevant Product. WDC's Replacement Product forecast will include weekly requirements for the first 13 weeks, monthly requirements for the 14th to 26th weeks, and Fiscal Quarterly requirements for the balance of the Replacement Product Period. This Replacement Product forecast does not constitute a purchase order. Within five Business Days of receiving WDC's forecast, Komag shall provide feedback to WDC to support or challenge the validity of the forecast, including a tentative delivery schedule.

4.2 PURCHASE ORDERS. WDC shall, no later than 60 Days before the beginning of each Fiscal Quarter, submit to Komag a firm, non-cancelable purchase order for Replacement Products for such Fiscal Quarter. Komag will not be obligated to supply Units of Replacement Products ordered for each Program by WDC for any Fiscal Quarter, in excess of 25% over the Units of Replacement Products forecasted by WDC for such Program for such Replacement Product for such Fiscal Quarter, but Komag shall use commercially reasonable efforts to supply such Replacement Products. Except as

"["**"]" INDICATES REDACTED INFORMATION FOR
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otherwise expressly provided herein, each purchase order for a particular Product shall be for at least (a) ["**"] Units for Products made using in-line sputtering; and (b) ["**"] for Products made using static sputtering. Except as otherwise provided in Section 3.3 following Komag's notice as required therein, in the event that WDC desires to place an order for a last-time buy of fewer than such number of Units, the parties shall first agree to an appropriate Price for such purchase order, which Price shall not be limited by the maximum percentage price increases and maximum prices set forth in ATTACHMENT 2.

4.3 LIABILITY LIMITATION. WDC's liability for cancellation of purchase orders for Replacement Products shall not exceed the quantities and Prices specified in the applicable purchase order.

ARTICLE V: DELIVERY OBLIGATIONS

5.1 KOMAG FAILURE ANALYSIS OBLIGATIONS. Komag shall use commercially reasonable efforts to ensure that Komag is capable of executing failure analysis for Products corresponding to the relevant Replacement Products during the Replacement Product Period.

5.2 ["**"]

5.3 INCREASED FORECASTS. If WDC's Replacement Product requirements forecasted under Section 4.1 of this EXHIBIT D for a Fiscal Quarter increases by more than ["**"]% from the previous Fiscal Quarter's forecast, then ["**"]

5.4 ["**"] EXCEPTION. Section 5.2 of this EXHIBIT D will apply to the ["**"] Program for only so long as WDC places purchase orders for and purchases ["**"] Units or more of Replacement Product for the ["**"] in each Fiscal Quarter. In the event that WDC does not do so, Komag will notify WDC that WDC may make a last-time buy and will not be obligated to reimburse WDC under Section 5.2 of this EXHIBIT D for forecasts based on sales of disk drives in the ["**"] for any cost in or after the first Fiscal Quarter in which WDC fails to do so. In the event that WDC desires to place an order for a last-time buy of fewer than ["**"] of such Units, the parties shall first agree to an appropriate Price for such purchase order, which Price shall not be limited by the maximum percentage price increases and maximum prices set forth in ATTACHMENT 2.

"***" INDICATES REDACTED INFORMATION FOR
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ATTACHMENT 1

WARRANTY VERIFICATION AND DISPOSITION FLOW CHART

[***]

 "[***]" INDICATES REDACTED INFORMATION FOR
 WHICH CONFIDENTIAL TREATMENT IS REQUESTED

ATTACHMENT 1
 MEDIA-PRICING TABLE

PROGRAM	PRICE AT START OF END OF LIFE PERIOD	MAXIMUM % PERIOD INCREASE PER FISCAL QUARTER	START OF REPLACEMENT PRODUCT PERIOD END OF REPLACEMENT PRODUCT PERIOD	MAXIMUM PRICE DURING REPLACEMENT PRODUCT PERIOD
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

[***]

WESTERN DIGITAL CORPORATION
 SUBSIDIARIES OF THE COMPANY

NAME -----	JURISDICTION -----
Connex, Inc.	Delaware
Pacifica Insurance Corporation.....	Hawaii
SageTree, Inc.	Delaware
Western Digital Canada Corporation.....	Canada
Western Digital (Deutschland) GmbH.....	Federal Republic of Germany
Western Digital (France) SARL.....	France
Western Digital Hong Kong Limited.....	Hong Kong
Western Digital Ireland, Ltd.	Cayman Islands
Western Digital (I.S.) Limited.....	Ireland
Western Digital Japan Ltd.	Japan
Western Digital (Malaysia) Sdn Bhd.....	Malaysia
Western Digital Netherlands B.V.	The Netherlands
Western Digital (S.E. Asia) Pte Ltd.....	Singapore
Western Digital (Singapore) Pte Ltd.....	Singapore
Western Digital Taiwan Co., Ltd.	Taiwan, Republic of China
Western Digital (Tuas-Singapore) Pte Ltd.....	Singapore
Western Digital (U.K.) Limited.....	United Kingdom

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Western Digital Corporation:

We consent to the incorporation by reference in the Registration Statements (Nos. 2-76179, 2-97365, 33-57953, 33-9853, 33-15771, 33-60166, 33-60168, 33-51725, 333-20359, 333-31487, 333-41423, 333-42991 and 333-70413) on Form S-8 of Western Digital Corporation and in Registration Statements (Nos. 333-52463 and 333-70785) on Form S-3 of Western Digital Corporation of our report dated July 21, 1999, except as to Note 11, which is as of September 29, 1999, relating to the consolidated balance sheets of Western Digital Corporation as of June 27, 1998 and July 3, 1999, and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended July 3, 1999, and the related schedule, which report appears in the July 3, 1999 Annual Report on Form 10-K of Western Digital Corporation.

KPMG LLP

Orange County, California
October 1, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JULY 3, 1999.

1,000
U.S. DOLLARS

	12-MOS	
	JUL-03-1999	
	JUN-27-1998	
	JUL-03-1999	
	1	
		226,147
		0
		291,972
		18,537
		144,093
	688,347	
		534,262
		296,323
	1,022,402	
	626,618	
		534,144
	0	
		0
		906
		(154,696)
1,022,402		
		2,767,206
	2,767,206	
		2,770,054
		2,770,054
		473,944
		2,632
	(15,898)	
	(492,690)	
		0
	(492,690)	
		0
		0
		0
		(492,690)
		(5.51)
		(5.51)

- (10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.
- (11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.
- (12) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.
- (13) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.
- (14) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.
- (15) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 1, 1998.
- (16) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 10, 1998.
- (17) Incorporated by reference to the Company's Form 8A (No. 001-08703) as filed with the Securities and Exchange Commission on November 19, 1998.
- (18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 8, 1999.
- (19) Subject to confidentiality order dated October 2, 1998.