

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 2007

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8703



WESTERN DIGITAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

33-0956711

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

**20511 Lake Forest Drive
Lake Forest, California**

(Address of principal executive offices)

92630

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of the close of business on October 26, 2007, 220.1 million shares of common stock, par value \$.01 per share, were outstanding.

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Typically, our fiscal year ends on the Friday nearest to June 30 and consists of 52 weeks. However, approximately every six years, we report a 53-week fiscal year to align our fiscal quarters with calendar quarters by adding a week to our fourth fiscal quarter. The quarters ended September 28, 2007 and September 29, 2006 were 13 weeks. Fiscal year 2007 was comprised of 52 weeks and ended on June 29, 2007. Fiscal year 2008 will be comprised of 52 weeks and will end on June 27, 2008. Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters, and references to financial information are on a consolidated basis. As used herein, the terms “we”, “us” and “our” refer to Western Digital Corporation and its subsidiaries.

We are a Delaware corporation that operates as the parent company of our hard drive business, Western Digital Technologies, Inc., which was formed in 1970.

Our principal executive offices are located at 20511 Lake Forest Drive, Lake Forest, California 92630. Our telephone number is (949) 672-7000 and our web site is <http://www.westerndigital.com>. The information on our web site is not incorporated into this Quarterly Report on Form 10-Q.

Western Digital®, WD®, the WD logo®, MioNet®, WD Caviar®, WD Raptor®, WD Scorpio®, WD Passport®, My Book™, World Edition™, Premium ES Edition™, WD AV™, WD RE2™, My DVR Expander™ and GreenPower™ are trademarks of Western Digital Technologies, Inc. and/or its affiliates. All other trademarks mentioned are the property of their respective owners.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS**WESTERN DIGITAL CORPORATION**
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par values; unaudited)

	Sept. 28, 2007	Jun. 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 651	\$ 700
Short-term investments	200	207
Accounts receivable, net	985	697
Inventories	461	259
Advances to suppliers	42	63
Other current assets	108	103
Total current assets	2,447	2,029
Property and equipment, net	1,516	741
Goodwill and other intangible assets, net	187	4
Other non-current assets	224	127
Total assets	<u>\$ 4,374</u>	<u>\$ 2,901</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,106	\$ 882
Customer advances	59	—
Accrued expenses	211	163
Accrued warranty	76	73
Short-term debt	999	—
Current portion of long-term debt	12	12
Total current liabilities	2,463	1,130
Long-term debt	7	10
Other liabilities	117	45
Total liabilities	2,587	1,185
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized — 5.0 shares; Outstanding — None	—	—
Common stock, \$.01 par value; authorized — 450.0 shares; Outstanding — 225.3 and 221.7 shares, respectively	2	2
Additional paid-in capital	811	811
Accumulated comprehensive income	2	(1)
Retained earnings	1,023	955
Treasury stock — common shares at cost; 2.9 and 3.0 shares, respectively	(51)	(51)
Total shareholders' equity	1,787	1,716
Total liabilities and shareholders' equity	<u>\$ 4,374</u>	<u>\$ 2,901</u>

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

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

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Revenue, net	\$ 1,766	\$ 1,264
Cost of revenue	1,443	1,046
Gross margin	<u>323</u>	<u>218</u>
Operating expenses:		
Research and development	91	75
Selling, general and administrative	48	44
Acquired in-process research and development	49	—
Total operating expenses	<u>188</u>	<u>119</u>
Operating income	135	99
Non-operating income:		
Interest income	9	7
Interest and other expense	6	—
Total non-operating income	<u>3</u>	<u>7</u>
Income before income taxes	138	106
Income tax provision	69	3
Net income	<u>\$ 69</u>	<u>\$ 103</u>
Income per common share:		
Basic	<u>\$.31</u>	<u>\$.47</u>
Diluted	<u>\$.31</u>	<u>\$.46</u>
Weighted average shares outstanding:		
Basic	<u>219</u>	<u>219</u>
Diluted	<u>224</u>	<u>225</u>

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

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

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Cash flows from operating activities		
Net income	\$ 69	\$ 103
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	78	45
In-process research and development	49	—
Deferred income taxes	60	—
Stock-based compensation	8	9
Changes in:		
Accounts receivable	(173)	(132)
Inventories	3	(11)
Accounts payable	72	105
Accrued expenses	12	(1)
Advances to suppliers	30	(3)
Prepaid expenses and other	11	—
Net cash provided by operating activities	<u>219</u>	<u>115</u>
Cash flows from investing activities		
Acquisitions, net of cash acquired	(911)	—
Capital expenditures	(163)	(59)
Purchases of short-term investments	(28)	(1)
Redemption of short-term investments	93	1
Net cash used in investing activities	<u>(1,009)</u>	<u>(59)</u>
Cash flows from financing activities		
Net proceeds from short-term debt	750	—
Issuance of common stock under employee plans	10	2
Repurchase of common stock	(16)	—
Repayment of long-term debt	(3)	(6)
Net cash provided by (used in) financing activities	<u>741</u>	<u>(4)</u>
Net (decrease) increase in cash and cash equivalents	(49)	52
Cash and cash equivalents, beginning of period	700	551
Cash and cash equivalents, end of period	<u>\$ 651</u>	<u>\$ 603</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	\$ 2	\$ 2
Cash paid during the period for interest	\$ —	\$ 1
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired under capital lease	\$ —	\$ 21
Acquired convertible debentures	\$ 248	\$ —

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

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accounting policies followed by Western Digital Corporation (the "Company") are set forth in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 29, 2007. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal, recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 29, 2007. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

On September 5, 2007, the Company completed its acquisition (the "Acquisition") of Komag, Incorporated ("Komag"). The Acquisition is further described in Note 9 below. In connection with the Acquisition, Komag became an indirect wholly-owned subsidiary of the Company and changed its name to WD Media, Inc. WD Media's results of operations since the date of the Acquisition are included in the condensed consolidated financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including WD Media. All significant intercompany accounts and transactions have been eliminated in consolidation.

Company management makes estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with GAAP. These estimates and assumptions are applied using methodologies that are consistent throughout the periods presented. However, actual results can differ from these estimates. The Company makes adjustments to these estimates and assumptions in subsequent reporting periods as more current information becomes available.

Beginning with the second quarter of 2007, the presentation within the condensed consolidated statement of cash flows for capital expenditures was changed to reflect capital expenditures on a cash disbursements basis in accordance with Statement of Financial Accounting Standards ("SFAS") No. 95, "Statement of Cash Flows." Previously, the Company presented capital expenditures on an incurred (accrual) basis. The comparative amounts in the prior period have been corrected to conform to the current period presentation as follows (in millions):

	THREE MONTHS ENDED Sept. 29, 2006	
	Current Classification	Previous Classification
Changes in accounts payable	\$105	\$118
Net cash provided by operating activities	115	128
Capital expenditures	(59)	(72)
Net cash used in investing activities	(59)	(72)

2. Supplemental Financial Statement Data*Inventories*

	Sept. 28, 2007	Jun. 29, 2007
	(in millions)	
Inventories:		
Raw materials and component parts	\$ 165	\$ 12
Work in process	145	94
Finished goods	151	153
Total inventories	\$ 461	\$ 259

Total inventories at September 28, 2007 included \$197 million of inventory acquired through the Acquisition, consisting of \$152 million of raw materials, \$37 million of work in process and \$8 million of finished goods.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Warranty

The Company records an accrual for estimated warranty costs when revenue is recognized. The Company generally warrants its products for a period of one to five years. The warranty provision considers estimated product failure rates and trends, estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. The Company uses a statistical warranty tracking model to help with its estimates and the Company exercises judgment in determining the underlying estimates. The statistical tracking model captures specific detail on hard drive reliability, such as factory test data, historical field return rates, and costs to repair by product type. If actual product return trends, costs to repair returned products or costs of customer compensatory claims differ significantly from estimates, future results of operations could be materially affected. Management's judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited field experience with those products upon which to base warranty estimates. Management reviews the warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that impact current period gross margin and income. Such changes are generally a result of differences between forecasted and actual return rate experience and costs to repair. Changes in the warranty accrual for the three months ended September 28, 2007 and September 29, 2006 were as follows (in millions):

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Warranty accrual, beginning of period	\$ 90	\$ 89
Charges to operations	25	19
Utilization	(16)	(12)
Changes in estimate related to pre-existing warranties	(2)	(5)
Warranty accrual, end of period	<u>\$ 97</u>	<u>\$ 91</u>

Accrued warranty also includes amounts classified in non-current liabilities of \$21 million at September 28, 2007, \$17 million at June 29, 2007, and \$17 million at September 29, 2006.

3. Income per Share

The Company computes basic income per share using the net income and the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the net income and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include certain dilutive outstanding employee stock options, rights to purchase shares of common stock under our employee stock purchase plan and restricted stock and stock unit awards.

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

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Net income	<u>\$ 69</u>	<u>\$ 103</u>
Weighted average shares outstanding:		
Basic	219	219
Employee stock options and other	5	6
Diluted	<u>224</u>	<u>225</u>
Income per common share:		
Basic	<u>\$.31</u>	<u>\$.47</u>
Diluted	<u>\$.31</u>	<u>\$.46</u>
Antidilutive common share equivalents excluded	<u>2</u>	<u>2</u>

For purposes of computing diluted income per share, common share equivalents with an exercise price that exceeded the average fair market value of common stock for the period are considered antidilutive and have been excluded from the calculation of diluted shares outstanding.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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4. Short-term Debt

In August 2007, the Company entered into a credit agreement (the "Bridge Facility") with Goldman Sachs Credit Partners L.P. The Bridge Facility provides for a \$1.25 billion unsecured bridge loan for which the proceeds must be used for funding the Acquisition, which included the conversion of shares into a right to receive \$32.25 per share in the Acquisition, the repurchase of Komag's outstanding convertible notes due 2014 in the amount of \$250 million and to pay for related fees and expenses. The Bridge Facility requires the Company to comply with a leverage ratio and a fixed charge coverage ratio, and contains customary covenants, including covenants that limit or restrict subsidiaries' ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and enter into certain speculative hedging arrangements. At the Company's option, borrowings under the Bridge Facility bear interest at either a Base Rate plus a margin, or at LIBOR plus a margin. The Base Rate is calculated at the higher of (i) the Federal Funds Rate plus a margin, (ii) the prime rate, or (iii) a computed rate based on a three-week moving average rate of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks. The Bridge Facility is scheduled to mature 364 days after the initial borrowing. At September 28, 2007, \$750 million had been drawn and \$500 million was available for borrowing. From September 5, 2007 to September 28, 2007, the average variable rate on the Bridge Facility was 6.088% based on LIBOR. As of September 28, 2007, the Company was in compliance with all covenants related to the Bridge Facility.

As a result of the Acquisition, the Company assumed \$250 million face value of additional debt in the form of Convertible Subordinated Notes ("the Notes") issued by Komag on March 28, 2007. The original terms of the Notes have a maturity of April 1, 2014, and currently bear interest at an annual rate of 2.625%. In addition, the terms specify that upon the occurrence of a fundamental change of Komag (including a change of control) the Notes are to be repurchased for a value equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest through the Fundamental Change Purchase Date, which the Company currently expects to be December 5, 2007. There are no financial covenants or guarantees and there is no collateral associated with the Notes.

5. Stock-Based Compensation*Stock-Based Compensation Expense*

During the three months ended September 28, 2007, the Company charged to expense \$4 million for stock-based compensation related to options issued under stock option and ESPP plans, compared to \$4 million in the comparative prior year period. At September 28, 2007, total compensation cost related to unvested stock options and ESPP rights issued to employees but not yet recognized was \$29 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.6 years.

Fair Value Disclosures

The fair value of stock options granted during the three months ended September 28, 2007 was estimated using a binomial option pricing model. The binomial model requires the input of highly subjective assumptions including the expected stock price volatility, the expected price multiple at which employees are likely to exercise stock options and the expected employee termination rate. The Company uses historical data to estimate the rate at which employee options are exercised, employee terminations, and expected stock price volatility within the binomial model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of stock options granted during the three months ended September 28, 2007 was estimated using the following weighted average assumptions:

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Suboptimal exercise factor	1.57	1.64
Range of risk-free interest rates	3.97% to 4.59%	4.59% to 4.91%
Range of expected stock price volatility	0.33 to 0.75	0.42 to 0.77
Weighted average expected volatility	0.47	0.63
Post-vesting termination rate	5.35%	5.25%
Expected term (in years)	5.27	5.22
Dividend yield	—	—
Fair value	\$8.78	\$7.65

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The fair value of ESPP rights issued are estimated at the date of issue using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes-Merton option pricing model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until options are exercised. Shares granted under the current ESPP provisions are issued on either June 1 or December 1, except for the initial offering period, which began on December 15, 2005. ESPP activity was immaterial to the condensed consolidated financial statements for the three months ended September 28, 2007.

Stock Options

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

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at June 29, 2007	10.8	\$ 12.15		
Granted	1.2	23.41		
Exercised	(1.1)	9.54		
Canceled or expired	(0.6)	31.02		
Options outstanding at September 28, 2007	<u>10.3</u>	<u>\$ 12.68</u>	<u>5.9</u>	<u>\$ 131</u>
Exercisable at September 28, 2007	<u>6.0</u>	<u>\$ 8.78</u>	<u>4.5</u>	<u>\$ 99</u>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for those awards that have an exercise price currently below the quoted price. As of September 28, 2007, the Company had options outstanding to purchase an aggregate of 6.0 million shares with an exercise price below the quoted price of the Company's stock resulting in an aggregate intrinsic value of \$99 million. During the three months ended September 28, 2007, the aggregate intrinsic value of options exercised under the Company's stock option plans was \$14 million determined as of the date of exercise. The aggregate intrinsic value of options exercised under the Company's stock option plans during the three months ended September 29, 2006 was \$2 million.

Deferred Stock Compensation

The Company granted approximately 0.5 million of restricted stock units during the three months ended September 28, 2007, which are payable in an equal number of shares of the Company's common stock at the time of vesting of the units. The aggregate market value of these awards was \$12 million. As of September 28, 2007, the aggregate unamortized fair value of all unvested restricted stock awards was \$46 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.9 years. For the three months ended September 28, 2007, the Company charged to expense approximately \$4 million related to restricted stock awards that were vested during the period, compared to \$5 million in the comparative prior year period.

6. Legal Proceedings

In the normal course of business, the Company is subject to legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that any monetary liability or financial impact to the Company from these matters or the specified matters below, individually and in the aggregate, beyond that provided at September 28, 2007, would not be material to the Company's financial condition. However, there can be no assurance with respect to such result, and monetary liability or financial impact to the Company from these legal proceedings, lawsuits and other claims could differ materially from those projected.

Since the Company's announcement on July 27, 2006 that it was conducting a company-initiated, voluntary review of its historical stock option grants, several purported derivative actions were filed nominally on behalf of the Company against certain current and former directors and officers of the Company in the United States District Court for the Central District of California and the Superior Court of the State of California for the County of

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Orange. These complaints assert claims for violations of Sections 10(b), 14(a) and 20(a) of the Securities Exchange Act, accounting, breach of fiduciary duty and/or aiding and abetting, constructive fraud, waste of corporate assets, unjust enrichment, rescission, breach of contract, violation of the California Corporations Code, abuse of control, gross mismanagement, and constructive trust in connection with the Company's option granting practices. The complaints seek unspecified monetary damages and other relief against the individual defendants and certain governance reforms affecting the Company. The Company is named solely as a nominal defendant in each action. The parties in the actions engaged in a voluntary mediation on June 6, 2007, and these discussions are continuing.

On January 22, 2007, StorMedia Texas LLC filed a complaint against the Company and several other companies, including other disk drive manufacturers, for patent infringement in the Eastern District of Texas alleging infringement of U.S. Patent No. 6,805,891. The Company served an answer to the complaint denying all material allegations and asserting affirmative defenses, and has also filed counterclaims against StorMedia. The Company intends to defend itself vigorously in this matter. Prior to our acquisition, Komag had provided its customers with certain contractual indemnification undertakings for patent infringement involving its products and Komag had received claims for reimbursement of legal defense costs from its customers related to the StorMedia patent infringement litigation. The Company is evaluating the position of Komag in relation to this matter.

On October 9, 2007, the United States International Trade Commission ("ITC") issued a notice of investigation In the Matter of Certain Hard Disk Drives, Components thereof, and Products Containing the Same (Inv. No. 337-TA-616) regarding a complaint filed on September 10, 2007 by Steven F. Reiber and Mary L. Reiber (the "Reibers"). The complaint alleges violations of 19 U.S.C. Section 1337 in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain hard disk drives, components thereof, and products containing the same by reason of infringement of certain claims of U.S. Patent Nos. 6,354,479, 6,651,864, and 6,935,548. The complaint named as respondents the Company and several other companies, including certain other disk drive manufacturers and personal computer vendors. The Reibers also filed a complaint in the United States District Court for the Eastern District of California (Case No. 2:07-cv-01874) on September 10, 2007 that alleges infringement of unspecified claims of these same patents by the same entities named as respondents in the Reibers' ITC complaint. The district court complaint further alleges misappropriation of trade secret claims against the Company. The Company intends to defend itself vigorously in these matters.

7. New Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements". SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances, but provides clarification on acceptable fair valuation methods and applications. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of SFAS 157 will have on its consolidated financial statements beginning fiscal 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact SFAS 159 will have on its consolidated financial statements.

8. Income Taxes

The Company's income tax provision for the three months ended September 28, 2007 was \$69 million. This included the tax related to two discrete events: 1) approximately \$54 million in U.S. tax on the up front royalty payment related to the intercompany license of certain intellectual property rights to a foreign subsidiary; and 2) a net increase to the reserve for uncertain tax positions of \$6 million. Differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia and Thailand that expire at various times ranging from 2008 to 2022 and the current year generation of income tax credits.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Effective as of June 30, 2007, the Company adopted the provision of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." First, the tax position is evaluated for recognition by determining if it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to be recognized in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement.

The adoption of FIN 48 at the beginning of the quarter did not result in an adjustment for unrecognized tax benefits. The total amount of gross unrecognized tax benefits as of the date of adoption was \$58 million which had previously been presented as a reduction to deferred tax assets of \$47 million and an inclusion in other long term liabilities of \$11 million as of June 29, 2007. These unrecognized tax benefits are now presented gross in the Company's balance sheet. These gross unrecognized tax benefits will affect the future effective tax rate if realized. The Company's policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of income did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, such amounts were not material.

Subsequent to the adoption of FIN 48, the Company recognized a \$6 million increase in the liability for unrecognized tax benefits. As of September 28, 2007, the Company had approximately \$78 million of unrecognized tax benefits which included \$14 million of gross unrecognized tax benefits related to Komag.

The Company files U.S. federal, U.S. state, and foreign tax returns. For federal tax returns, the Company is subject to examination for fiscal years 2004 through 2006. For state returns, with few exceptions, the Company is subject to tax examinations for 2003 through 2006. In foreign jurisdictions, also with few exceptions, the Company is subject to examination for all years subsequent to fiscal 2000. The tax years 2004 (2003 for some states) through 2006 remain open to examination by the major U.S. taxing jurisdictions to which the Company is subject. The Company is no longer subject to examination by the Internal Revenue Service ("IRS") for periods prior to 2004 and by the state taxing authorities for periods prior to 2003, although carryforwards generated prior to those periods may still be adjusted upon examination by the IRS or state taxing authority if they either have been or will be used in a future period.

Although timing of the resolution of uncertain tax positions and/or closure on audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

9. Komag Acquisition

The Company completed the Acquisition on September, 5, 2007 through a cash tender offer by State M Corporation ("State M"), an indirect wholly-owned subsidiary of the Company, for all outstanding shares of Komag's common stock, which was followed by a merger of State M and Komag whereby Komag became an indirect wholly-owned subsidiary of the Company and changed its name to WD Media, Inc. The Acquisition is intended to strengthen the Company's production efficiencies, improve access to and control of technology and competitive position in the worldwide hard drive industry, while enhancing its hard drive manufacturing process by integrating media. WD Media's results of operations since the date of the Acquisition are included in the condensed consolidated financial statements.

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Purchase Price Allocation

The aggregate purchase price for Komag was \$995 million, consisting of cash paid for outstanding shares, transaction fees, severance and other employee-related equity payments. The application of purchase accounting under SFAS No. 141, "Business Combinations" ("SFAS 141"), requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. The allocation process requires an analysis and valuation of acquired assets, including fixed assets, deferred tax assets, technologies, customer contracts and relationships, trade names and liabilities assumed, including contractual commitments and legal contingencies. In accordance with SFAS 141, the values assigned to certain acquired assets and liabilities are preliminary, are based on information available as of September 28, 2007, and may be adjusted as further information becomes available during the allocation period of up to 12 months from the date of the Acquisition.

Additional information that may become available subsequently and may result in changes in the values allocated to various assets and liabilities includes, but is not limited to, changes in the timing and actual number of employees terminated, unidentified claims from suppliers or other contingent obligations, the amounts required to settle them, the progress or outcomes of various litigation, and the value of deferred tax assets. Any changes in the values allocated to tangible and specifically identified intangible assets acquired and liabilities assumed during the allocation period may result in material adjustments to goodwill.

The Company identified and recorded the assets, including specifically identifiable intangible assets, and liabilities assumed from Komag at their estimated fair values at September 5, 2007, the date of the Acquisition, and allocated the residual value of approximately \$85 million to goodwill.

	<u>Sept. 5, 2007</u>
Tangible assets acquired and liabilities assumed:	
Cash and short-term investments	\$ 130
Accounts receivable	114
Inventories	205
Other current assets	6
Property and equipment	667
Other non-current assets	123
Accounts payable	(130)
Accrued liabilities	(79)
Debt assumed (note 4)	(248)
Other liabilities	(15)
Intangible assets	89
In-process research and development	49
Goodwill	84
Total	<u>\$ 995</u>

Property, Equipment and Leasehold Improvements

The plant and equipment acquired as part of the Acquisition continues to be utilized and was valued at current replacement cost for similar assets. Land and buildings have been estimated at fair value on September 5, 2007, the date of the Acquisition. The following table summarizes the estimated fair value of the property, plant and equipment acquired from Komag and their estimated useful lives:

	<u>Estimated Fair Value (In millions)</u>	<u>Estimated Weighted-Average Useful Life (In Years)</u>
Land leases	\$ 17	36.8
Buildings and improvements	224	17.8
Equipment	426	5.0
Total property, plant and equipment	<u>\$ 667</u>	<u>10.3</u>

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Inventories

Total inventories at September 5, 2007 included \$205 million of inventory acquired through the Acquisition, of which \$11 million and \$40 million represent finished goods and work-in-process, respectively. Finished goods and work-in-process were valued at estimated selling prices less costs of disposal, estimated reseller profit and costs to complete. In addition, total inventories at September 5, 2007 included \$154 million in raw materials, primarily precious metals, acquired from Komag and is valued based on fair value at the date of the Acquisition. Raw materials were valued at estimated replacement cost.

Identifiable Intangible Assets Acquired

In accordance with SFAS 141, the Company identified intangible assets apart from goodwill if one of the following criteria was met: 1) the asset arises from contractual or other legal rights; or 2) the asset is capable of being separated or divided from the acquired enterprise and sold, transferred, licensed, rented, or exchanged, either individually or in conjunction with a related contract, asset, or liability. The recorded values and estimated useful lives of the intangibles acquired from Komag were:

	<u>Estimated Fair Value</u> (In millions)	<u>Weighted-Average Useful Life</u> (In Years)
Existing technology	\$ 79	9.7
Customer substrate relationships	10	5.0
Total acquired identifiable intangible assets	<u>\$ 89</u>	<u>9.2</u>

Existing technology relates to Komag's media and substrate products that have reached technological feasibility as well as a combination of Komag's processes, patents, and trade secrets developed through years of experience in the design and production of their products. Existing technology was valued using the Excess Earnings Method under the Income Approach. This approach reflects the present value of projected cash flows that a market participant would expect to generate from these technologies less charges related to the contribution of other assets to those cash flows. The fair value of the existing technology is being amortized to Cost of Revenue over the weighted average useful life of 9.7 years.

The fair value of customer substrate relationships was determined using the Excess Earnings Method under the Income Approach based on the estimated revenues to be derived from Komag's customers. This approach reflects the present value of projected cash flows that a market participant would expect to generate from these customer substrate relationships less charges related to the contribution of other assets to those cash flows. The fair values of the customer substrate relationships are being amortized to Cost of Revenue over the weighted average useful life of five years.

In-Process Research and Development

Komag had an in-process research and development project associated with technology for higher recording densities on advanced perpendicular recording media. The project is expected to incorporate significant changes in the magnetic structure of the media to achieve higher recording density. As these advanced products are not ready for commercial production and have no alternative future use, the development cost did not qualify for capitalization. Accordingly, the Company recorded \$49 million as a charge to research and development expense at the time of the Acquisition. Costs to complete the development of this technology are expected to approximate \$5 million and are expected to utilize existing engineering personnel. The technology may be necessary to remain competitive with anticipated industry advances in areal recording densities for thin-film media. The in-process research and development was valued using the Excess Earnings Method under the Income Approach. This approach reflects the present value of projected cash flows that a market participant would expect to generate from these technologies less costs related to the contribution of other assets to those cash flows.

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Debt Assumed

As a result of the Acquisition, the Company assumed \$250 million face value of additional debt in the form of Convertible Subordinated Notes issued by Komag on March 28, 2007. The original terms of the Notes have a maturity of April 1, 2014, and currently bear interest at an annual rate of 2.625%. In addition, the terms specify that upon the occurrence of a fundamental change of Komag (including a change of control) the Notes, at the request of the Note holder must be repurchased for a value equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest through the Fundamental Change Purchase Date, which the Company currently expects to be December 5, 2007. Fair value of the debt was estimated to be \$248 million, which represents the present value at current market interest rates considering the estimated repayment date of December 5, 2007. Other terms of the debt which might otherwise impact its market value have been effectively eliminated due to the change of control provisions. There are no financial covenants or guarantees and there is no collateral associated with the Notes.

Adverse/Favorable Leasehold Interests

In accordance with the guidance in SFAS 141, the Company analyzed its contractual facility lease to determine the fair value of the leasehold interest. An adverse leasehold position exists when the present value of the contractual rental obligation is greater than the present value of the market rental obligation, and conversely for a favorable leasehold interest. The Company recorded a favorable leasehold interest aggregating \$4 million and has been classified within Other Non-current Assets in the purchase price allocation table in this footnote. The \$4 million will be amortized to Cost of Revenue and Operating Expenses over the remaining duration of the lease, which ends December 31, 2014.

Recognition of Liabilities in Connection with Komag Acquisition

Under EITF 95-3, "Recognition of Liabilities in Connection with a Business Combination", the Company has accrued certain exit costs aggregating \$33 million, which relate to employee severance and the cash payment for equity related liabilities due to the employment termination of Komag employees. The following table summarizes the Company's exit activities in connection with the Acquisition (in millions):

	<u>Severance and Related</u>
Accrued exit costs, September 5, 2007	\$ 33
Cash payments	(16)
Accrued exit costs, September 28, 2007	<u>\$ 17</u>

Accrued exit costs are included in Accrued Expenses on the Consolidated Balance Sheet, and are expected to be paid by the end of 2008.

Stock-Based Compensation

In connection with the Acquisition, each outstanding option to purchase shares of Komag's common stock with an exercise price below \$32.25 as of the date of the Acquisition was converted in to a right to receive \$32.25 in cash less the exercise price of the option. In addition, each share of Komag restricted common stock granted on or before September 5, 2007 was converted into \$32.25 per share in cash. These converted option and restricted stock awards are payable in cash according to their original vesting schedules. All shares of restricted stock and options remain subject to their original terms, including the terms and conditions of Komag's Amended and Restated 2002 Qualified Stock Plan, the applicable restricted stock and option agreement and the Merger Agreement. As of September 28, 2007, the future expense for the converted Komag unvested options and restricted stock awards is \$11 million to be paid in cash, which will be expensed based on individual award vesting terms between the date of the Acquisition and April 2010.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Komag prior to the Acquisition, on a pro forma basis, as though the companies had been combined as of July 1, 2006 for each period presented. The pro forma financial information presented includes

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adjustments to certain periods related to the fair value of acquired inventory and fixed assets, amortization charges from acquired intangible assets, stock-based compensation charges for unvested options and unvested restricted stock awards exchanged and to be paid in cash and the related tax effects of those adjustments. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results.

Due to the date of the Acquisition and differences in reporting periods, the following unaudited pro forma financial information is for the quarters ended September 28, 2007 and September 29, 2006. It combines the Company's financial results for the quarter ended September 28, 2007 with Komag's financial results from July 2, 2007 through the date of the Acquisition, and the Company's financial results for the quarter ended September 29, 2006 with the historical results of Komag for the quarter ended October 1, 2006.

(in millions, except per share amounts)	2008	2007
	(Unaudited)	
Revenue	\$1,875	\$1,423
Net income	\$ 52	\$ 134
Basic net income per share	\$.24	\$.61
Diluted net income per share	\$.23	\$.60

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 29, 2007.

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

Forward-Looking Statements

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

- *growth in demand for hard drives in the desktop, mobile, enterprise and consumer electronics markets and factors contributing to such growth;*
- *our plans to develop new products and to continue our expansion into non-desktop hard drive markets, such as mobile, consumer electronics, retail, and enterprise markets, and into emerging geographic markets;*
- *acceptance and emergence of the SATA and SAS interfaces in the enterprise market;*
- *increase in demand for higher capacity hard drives;*
- *our plans to design and manufacture a majority of the heads and media required for the hard drives we manufacture;*
- *expectations regarding our financial results for the second quarter and traditional seasonal demand trends;*
- *our share repurchase plans;*
- *expectations regarding our capital expenditure plans and our depreciation and amortization expense in fiscal 2008 and our plans to implement a long-term financing arrangement during 2008;*
- *beliefs regarding the sufficiency of our cash, cash equivalents and short-term investments to meet our working capital needs; and*
- *beliefs concerning our acquisition of Komag, including that the acquisition will result in cost, operational and other efficiencies and synergies, and that we will be able to integrate Komag's media business into our overall operations.*

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

Our Company

We design, develop, manufacture and sell hard drives. A hard drive is a device that uses one or more rotating magnetic disks (“media”) to store and allow fast access to data. Hard drives are key components of computers, including desktop and notebook computers (“PCs”), data storage subsystems and many consumer electronic (“CE”) devices.

We sell our products worldwide to original equipment manufacturers (“OEMs”) and original design manufacturers (“ODMs”) for use in computer systems, subsystems or CE devices, and to distributors, resellers and retailers. Our hard drives are used in desktop computers, notebook computers, and enterprise applications such as servers, workstations, network attached storage, storage area networks and video surveillance equipment. Additionally, our hard drives are used in CE applications such as digital video recorders (“DVRs”), and satellite and cable set-top boxes (“STBs”). We also sell our hard drives as stand-alone storage products by integrating them into external casings, embedding application software and presenting them as WD-branded external storage appliances for purposes such as personal data backup and portable or expanded storage of digital music, photography, video, and other data.

Hard drives provide non-volatile data storage, which means that the data remains present when power is no longer applied to the device. Our hard drives currently include 3.5-inch and 2.5-inch form factor drives, having capacities ranging from 40 gigabytes (“GB”) to 1 terabyte (“TB”), nominal rotation speeds of 5,400, 7,200 and 10,000 revolutions per minute (“RPM”), and offer interfaces including both Enhanced Integrated Drive Electronics (“EIDE”) and Serial Advanced Technology Attachment (“SATA”). We also embed our hard drives into WD-branded external storage appliances that utilize interfaces such as USB 2.0, external SATA, FireWire™ and Ethernet network connections. In addition, we recently announced a family of hard drives specifically designed to consume substantially less power than previous designs.

We manufacture hard drives and head stack assemblies (“HSAs”) in Malaysia and Thailand. We also design and manufacture a substantial portion of our required magnetic heads in California, and head gimbal assemblies (“HGAs”) in Thailand. With our acquisition of Komag, Incorporated (“Komag”) on September 5, 2007, which is further described below, we now design in California and manufacture in Malaysia most of our required media and substrates. For geographical financial data, see Part II, Item 8, Note 6 in the Notes to Consolidated Financial Statements, included in our 2007 Annual Report on Form 10-K.

Technology and Product Development

Hard drives record, store and retrieve digital data. Performance attributes of hard drives, such as their ability to access and transmit data and storage capacity, are currently better than removable or floppy disks, optical hard drives and tapes, and they are more cost effective than semiconductor technology.

All of our hard drive products employ similar technology. The main components of the hard drive are a head disk assembly and a printed circuit board. The head disk assembly includes heads, media (“disks” or “platters”), head positioning mechanism (actuator) and spindle motor. A base and top cover contain these components in a contamination-controlled environment. The printed circuit board includes both standard and custom integrated circuits, an interface connector to the host computer and a power connector.

Media is the primary storage medium for digital data. Media manufacturers have had significant influence over hard drive technology innovation by increasing storage capacities per square inch of disk surface, referred to as areal density, and improving reliability. The number of disks and each disk’s areal density determines storage capacity of the hard drive. The higher the areal density, the more information can be stored on a single platter. Achieving a given drive capacity requires fewer disks as the areal density increases, potentially reducing product costs over time through reduced component requirements. Beginning in June 2007, we began shipping 3.5-inch hard drives with 188 GB per platter areal density and 2.5-inch hard drives with 125 GB per platter areal density. In July 2007, we introduced the WD Caviar® GP 3.5-inch hard drive which has 250 GB per platter areal density. By vertically integrating the technical expertise of media design and manufacturing, we now possess the ability to further improve the performance and storage capacity of our disk drives, while lowering our cost of materials.

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Komag Acquisition

On September 5, 2007, we completed our acquisition of Komag (the "Acquisition") through a cash tender offer by State M Corporation ("State M"), our indirect wholly-owned subsidiary, for all outstanding shares of Komag's common stock, which was followed by a merger of State M and Komag (the "Merger") whereby Komag became an indirect wholly-owned subsidiary and changed its name to WD Media, Inc. The Acquisition is intended to strengthen our production efficiencies, improve our access to and control of technology and competitive position in the worldwide hard drive industry, while enhancing our hard drive manufacturing process by integrating media. The aggregate purchase price for Komag was \$995 million, consisting of cash paid for outstanding shares, transaction fees, severance and other employee-related equity payments.

In addition to our various owned and leased properties utilized for our management, research and development, administrative and sales staff, head wafer fabrication, assembly of hard drives, printed circuit boards and HSAs, and warehousing, we have acquired, through the Acquisition, additional facilities in San Jose, California of approximately 190,000 square feet and four additional manufacturing facilities in Penang, Johor and Sarawak, Malaysia of approximately 1,300,000 square feet, which we use for our media operations. For additional information concerning our various property locations, see Part I, Item 2, included in our 2007 Annual Report on Form 10-K.

First Quarter Overview

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

	THREE MONTHS ENDED			
	Sept. 28, 2007		Sept. 29, 2006	
Net revenue	\$1,766	100.0%	\$1,264	100.0%
Gross margin	323	18.3	218	17.3
Total operating expenses	188	10.6	119	9.3
Operating income	135	7.6	99	7.9
Net income	69	3.9	103	8.2

The following is a summary of our financial performance for the first quarter of 2008:

- Consolidated net revenue for the first quarter of 2008 totaled \$1.8 billion, an increase of 40% over the prior year's first quarter.
- Net revenue from our media operations from the date of the Acquisition through the end of the quarter totaled \$40 million.
- During the September quarter, 53% of our hard drive revenue was derived from newer, non-desktop markets, including notebook computers, CE products, enterprise applications, and WD branded product sales, as compared to 35% in the prior year.
- Unit shipments increased by 29% over the prior year to 29.4 million.
- Gross margin increased to 18.3%, compared to 17.3% for the prior year's first quarter.
- Operating income for the September quarter was \$135 million, an increase of 36% over the prior year's first quarter.
- We generated \$219 million in cash flow from operations and we finished the quarter with \$851 million in cash, cash equivalents and short-term investments.

We expect demand for the December quarter to be seasonally strong. Our gross margin percentage is anticipated to increase from the September quarter given typical seasonal factors. Operating expenses will increase to reflect a full quarter of media operations and as we continue to invest in new products and technology.

[Table of Contents](#)**Results of Operations**

In accordance with U.S. generally accepted accounting principles, operating results for Komag prior to the Acquisition, including for the quarter ended September 29, 2006, are not included in our operating results and are therefore not discussed. Accordingly, our quarter ended September 28, 2007 revenues and expenses reflect the addition of results from our media operations since the date of the Acquisition (September 5, 2007) while our quarter ended September 29, 2006 results do not include operating results for Komag prior to the date of the Acquisition. This will affect our discussion of changes in our revenues and expenses comparing these periods. In connection with the Acquisition, we incurred accounting charges and other costs, which impacted our earnings for the September 2007 quarter.

Net Revenue

(in millions, except percentages & ASP)	THREE MONTHS ENDED		Percentage Change
	Sept. 28, 2007	Sept. 29, 2006	
Net revenue	\$1,766	\$1,264	40%
Unit shipments	29.4	22.7	29%
ASP (per HDD unit)	\$ 59	\$ 56	5%

Revenues by Geography (%)

Americas	33%	35%
Europe	32	28
Asia	35	37

Revenues by Channel (%)

OEM	51%	52%
Distributors	31	37
Branded products	18	11

Revenues by Product (%)

Desktop computers	47%	65%
Non-desktop sources	53	35

For the quarter ended September 28, 2007, net revenue was \$1.8 billion, an increase of 40% over the quarter ended September 29, 2006. Of this amount, our newly acquired media operations contributed \$40 million in net revenue since the date of the Acquisition through the end of the September quarter. Total unit shipments increased to 29.4 million for the first quarter of 2008 as compared to 22.7 million for the first quarter of 2007. These unit and revenue increases resulted from higher overall demand for hard drives with higher capacities and to our continuing diversification into non-desktop markets. For example, we shipped 5.9 million 2.5-inch mobile drives in the first quarter of 2008 as compared to 2.2 million units in the first quarter of 2007. We shipped 3.7 million units to the DVR market in the first quarter of 2008 as compared to 2.5 million units in the first quarter of 2007. In addition, revenue from branded products increased to \$321 million, or 18% of revenues for the three months ended September 28, 2007, as compared to \$138 million for the prior year's comparable period. This increase is attributable to the growing worldwide acceptance of our WD My Book™ and WD Passport® external digital storage appliances. Revenue from all non-desktop markets comprised 53% of hard drive revenue for the quarter ended September 28, 2007 as compared to 35% for the year-ago quarter.

Average selling prices ("ASPs") for the first quarter of 2008 were approximately \$3 higher than the prior year due to an improved mix of revenues by market segment, improved product mix and more favorable supply/demand conditions.

Changes in revenue by geography, by channel and by customer generally reflect normal fluctuations in market demand and competitive dynamics. In addition, our percentage of net revenue by channel was impacted by the significant increase in sales of our WD branded products as compared to the prior year. For the three months ended September 28, 2007, we had no customers that represented 10%, or more, of our revenue.

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Gross Margin

(in millions, except percentages)	THREE MONTHS ENDED		Percentage Change
	Sept. 28, 2007	Sept. 29, 2006	
Net revenue	\$1,766	\$1,264	40%
Gross margin	323	218	48
<i>Gross margin %</i>	18.3%	17.3%	

For the three months ended September 28, 2007, gross margin as a percentage of sales increased 100 basis points from the prior year quarter. These results reflect an improved mix of revenues by market segment, improved product mix and more favorable supply/demand conditions.

Operating Expenses

(in millions, except percentages)	THREE MONTHS ENDED		Percentage Change
	Sept. 28, 2007	Sept. 29, 2006	
R&D expense	\$ 91	\$ 75	21%
SG&A expense	48	44	9
Acquired in-process research and development	49	—	—
Total operating expenses	<u>188</u>	<u>119</u>	58

Research and development (“R&D”) expense was \$91 million for the three months ended September 28, 2007 compared to \$75 million for the three months ended September 29, 2006. This increase includes \$6 million attributed to the acquired media operations and an increase in incentive compensation expense of \$5 million compared to the prior year period. The remainder of the increase in R&D expense was due to new product development.

Selling, general and administrative (“SG&A”) expense was \$48 million for the three months ended September 28, 2007, an increase of \$4 million from the prior year’s comparable period. SG&A expense for the period ended September 28, 2007 included a \$7 million increase compared to the prior year period for incentive and other compensation related accruals. This was partially offset by a \$5 million decrease in SG&A expense primarily associated with prior year’s independent stock option investigation.

In addition, we recorded a \$49 million charge to operating expense related to an in-process research and development project acquired from Komag involving technology for higher recording densities on advanced perpendicular recording media. As these advanced products are not ready for commercial production the fair value of the development effort did not qualify for capitalization and was immediately expensed.

Non-operating Income

Interest income was \$9 million for the September quarter, an increase of \$2 million over the September quarter from the prior year. This increase resulted from higher average daily invested cash balances for the period and an increase in the rates of return on our investments due to an increase in interest rates compared to the prior year. Interest expense increased \$6 million from the prior year as a result of the acquisition-related debt.

Income Tax Provision

Our income tax provision for the three months ended September 28, 2007 was \$69 million. This included the tax related to two discrete events: 1) approximately \$54 million in U.S. tax on the up front royalty payment related to the intercompany license of certain intellectual property rights to a foreign subsidiary; and 2) a net increase to the reserve for uncertain tax positions of \$6 million. Differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia and Thailand that expire at various times ranging from 2008 to 2022 and the current year generation of income tax credits.

We adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”) as of June 30, 2007. As a result of the implementation of FIN 48, we recognized no adjustment in the net liability for unrecognized tax benefits. The total amount of gross unrecognized tax benefits as of the date of adoption of FIN 48 was \$58 million, all of which would affect our

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effective tax rate if realized. Subsequent to the adoption of FIN 48, we recognized a \$6 million increase in the liability for unrecognized tax benefits. As of September 28, 2007, we had approximately \$78 million of unrecognized tax benefits which included \$14 million of gross unrecognized tax benefits related to Komag.

Liquidity and Capital Resources

Our investment policy is to manage our investment portfolio to preserve principal and liquidity while maximizing return through the full investment of available funds. A portion of our funds is invested in auction rate securities, which are short-term investments in bonds with original maturities greater than 90 days. We ended the first quarter of 2008 with total cash, cash equivalents and short-term investments of \$851 million. The following table summarizes our statements of cash flows for the three months ended September 28, 2007 and September 29, 2006 (in millions):

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Net cash flow provided by (used in):		
Operating activities	\$ 219	\$ 115
Investing activities	(1,009)	(59)
Financing activities	741	(4)
Net (decrease) increase in cash and cash equivalents	\$ (49)	\$ 52

Operating Activities

Net cash provided by operating activities during the three months ended September 28, 2007 was \$219 million as compared to \$115 million during the three months ended September 29, 2006. Cash flow from operations consists of net income, adjusted for non-cash charges, plus or minus working capital changes. This represents our principal source of cash. Net cash used to fund working capital changes was \$45 million for the three months ended September 29, 2007 as compared to net cash used to fund working capital changes of \$42 million for the prior year.

Our working capital requirements primarily depend on the effective management of our cash conversion cycle, which measures how quickly we can convert our products into cash through sales. The cash conversion cycles for the three months ended September 28, 2007 and September 29, 2006 were as follows:

	THREE MONTHS ENDED	
	Sept. 28, 2007	Sept. 29, 2006
Days sales outstanding	51	44
Days in inventory	29	19
Days payables outstanding	(70)	(65)
Cash conversion cycle	10	(2)

For the three months ended September 28, 2007, our days sales outstanding (“DSOs”) increased by 7 days, days in inventory (“DIOs”) increased 10 days, and days payable outstanding (“DPOs”) increased 5 days compared to the prior year period. These increases were primarily due to the Acquisition. Excluding the impact of the Acquisition, DSOs increased to 48 days, DIOs decreased to 17 days, and DPOs decreased to 64 days. The change in DSOs reflects a change in the linearity of shipments as compared to the prior year comparable period, and increasing sales to customers who have longer payment terms. We expect DSOs to continue to be impacted by changes in customer mix. A substantial portion of the raw material inventory purchased in the Acquisition is comprised of precious metals. Precious metals are used in greater quantities for perpendicular recording technology. Our inventory of these precious metals may continue to increase as we further transition to disk drives based on perpendicular recording technology.

From time to time, we modify the timing of payments to our vendors. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances. Generally, we make the payment modifications through negotiations with or by granting to or receiving from our vendors’ payment term accommodations.

Investing Activities

Net cash used in investing activities for the three months ended September 28, 2007 was approximately \$1.0 billion as compared to \$59 million for the three months ended September 29, 2006. Investment activities in the three-month period ended September 28, 2007, included capital expenditures of \$163 million and \$911 million used in the Acquisition, compared to \$59 million for capital expenditures in the prior year period.

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For fiscal 2008, capital additions are currently expected to be around \$700 million, including approximately \$100 million for newly acquired media operations. Depreciation and amortization expense for fiscal 2008 is expected to approximate \$400 million.

Financing Activities

Net cash provided by financing activities for the three months ended September 28, 2007 was \$741 million as compared to net cash used in financing activities of \$4 million in the prior year. Net cash provided by financing activities for the three months ended September 28, 2007 consisted of the \$750 million Bridge Facility utilized for the Acquisition and \$10 million received upon exercise of outstanding employee stock options, offset by \$16 million used to repurchase our common stock and \$3 utilized for debt repayment. Net cash used in financing activities for the three months ended September 29, 2006 consisted primarily of \$6 million used for debt repayments, offset by \$2 million received from issuance of stock under employee stock option and purchase plans.

Off-Balance Sheet Arrangements

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

Capital Commitments

Short-term Debt — In August 2007, we entered into a credit agreement (the “Bridge Facility”) with Goldman Sachs Credit Partners L.P.. The Bridge Facility provides for a \$1.25 billion unsecured bridge loan for which the proceeds must be used for funding the Acquisition, the conversion of shares into a right to receive \$32.25 per share in the Acquisition, the repurchase of Komag’s outstanding Convertible Subordinated Notes (the “Notes”) due 2014 and to pay for related fees and expenses. The Bridge Facility requires our compliance with a leverage ratio and a fixed charge coverage ratio, and contains customary covenants, including covenants that limit or restrict our subsidiaries’ ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and enter into certain speculative hedging arrangements. At September 28, 2007, \$750 million had been drawn and \$500 million was available for borrowing. From September 5, 2007 to September 28, 2007, the average variable rate on the Bridge Facility was 6.088%. As of September 28, 2007, we were in compliance with all covenants related to the Bridge Facility.

As a result of the Acquisition, we assumed \$250 million face value of additional debt in the form of Convertible Subordinated Notes issued by Komag on March 28, 2007. The original terms of the Notes have a maturity of April 1, 2014, and currently bear interest at an annual rate of 2.625%. In addition, the terms specify that upon the occurrence of a fundamental change of Komag (including a change of control) the Notes must, at the request of the Note holder, be repurchased for a value equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest through the Fundamental Change Purchase Date, which the we currently expect to be December 5, 2007. There are no financial covenants or guarantees and there is no collateral associated with the Notes.

Purchase Orders — In the normal course of business, we enter into purchase orders with suppliers for the purchase of hard drive components used to manufacture our products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, are recorded as a liability upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. In some cases, we may be obligated to pay for certain costs related to changes to, or cancellation of, a purchase order, such as costs incurred for raw materials or work in process.

We have entered into long-term purchase agreements with various component suppliers, which contain minimum quantity requirements. However, the dollar amount of the purchases may depend on the specific products ordered, achievement of pre-defined quantity or quality specifications or future price negotiations. In conjunction with these agreements, we have advanced approximately \$69 million, net of repayments, related to future purchase commitments, of which \$27 million has been classified as a long-term asset at September 28, 2007.

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See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – "Capital Commitments" in our Annual Report on Form 10-K for the year ended June 29, 2007, for further discussion of our purchase orders and purchase agreements and the associated dollar amounts.

We enter into, from time to time, other long-term purchase agreements for components with certain vendors. Generally, future purchases under these agreements are not fixed and determinable as they depend on our overall unit volume requirements and are contingent upon the prices, technology and quality of the supplier's products remaining competitive. See Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of the risks associated with these commitments.

Forward Exchange Contracts — We purchase short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. See Part I, Item 3, of this Quarterly Report on Form 10-Q under the heading "Disclosure About Foreign Currency Risk," for our current forward exchange contract commitments.

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

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

Stock Repurchase Program — Our Board of Directors has authorized us to repurchase \$250 million of our common stock in open market transactions. The term of the program is a five-year period from November 17, 2005 to November 17, 2010. We expect stock repurchases to be funded principally by operating cash flows. Since the inception of our stock repurchase program through October 26, 2007, we have repurchased 15.1 million shares for a total cost of \$204 million (including commissions). We may continue to repurchase our stock as we deem appropriate and market conditions allow.

We have a \$1.25 billion bridge financing arrangement available through August 2008, of which \$750 million was outstanding at September 28, 2007. We may use a portion of the remaining availability to refinance the \$250 million assumed Komag debt, currently expected to be paid on December 5, 2007. We expect to refinance amounts outstanding under the bridge facility on a long-term basis before the end of our fiscal year.

We believe our current cash, cash equivalents and short-term investments will be sufficient to meet our working capital needs through the foreseeable future. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Critical Accounting Policies

We have prepared the accompanying unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires the use of judgment and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. We believe the following are our most critical accounting policies that affect significant areas and involve judgment and estimates made by us. If these estimates differ significantly from actual results, the impact to the consolidated financial statements may be material.

Revenue and Accounts Receivable

In accordance with standard industry practice, we have agreements with resellers that provide limited price protection for inventories held by resellers at the time of published list price reductions and other incentive programs. In accordance with current accounting standards, we recognize revenue upon delivery to OEMs, ODMs

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and resellers and record a reduction to revenue for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. We base these adjustments on anticipated price decreases during the reseller holding period, estimated amounts to be reimbursed to qualifying customers, as well as historical pricing information. If end-market demand for hard drives declines significantly, we may have to increase sell-through incentive payments to resellers, resulting in an increase in our allowances, which could adversely impact operating results.

We record an allowance for doubtful accounts by analyzing specific customer accounts and assessing the risk of loss based on insolvency, disputes or other collection issues. In addition, we routinely analyze the different receivable aging categories and establish reserves based on a combination of past due receivables and expected future losses based primarily on our historical levels of bad debt losses. If the financial condition of a significant customer deteriorates resulting in its inability to pay its accounts when due, or if our overall loss history changes significantly, an adjustment in our allowance for doubtful accounts would be required, which could affect operating results.

We establish provisions against revenue and cost of revenue for sales returns in the same period that the related revenue is recognized. We base these provisions on existing product return notifications. If actual sales returns exceed expectations, an increase in the sales return accrual would be required, which could negatively affect operating results.

Warranty

We record an accrual for estimated warranty costs when revenue is recognized. We generally warrant our products for a period of one to five years. Our warranty provision considers estimated product failure rates and trends, estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. We use a statistical warranty tracking model to help with our estimates and we exercise judgment in determining the underlying estimates. Our statistical tracking model captures specific detail on hard drive reliability, such as factory test data, historical field return rates, and costs to repair by product type. If actual product return trends, costs to repair returned products or costs of customer compensatory claims differ significantly from our estimates, our future results of operations could be materially affected. Our judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited field experience with those products upon which to base our warranty estimates. We review our warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that impact current period gross margin and income. Such changes are generally a result of differences between forecasted and actual return rate experience and costs to repair. For a summary of historical changes in estimates related to pre-existing warranty provisions, refer to Part I, Item 1, Note 2 of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Inventory

We value inventories at the lower of cost (first-in, first-out basis) or net realizable value. We record inventory write-downs for the valuation of inventory at the lower of cost or net realizable value by analyzing market conditions and estimates of future sales prices as compared to inventory costs and inventory balances.

We evaluate inventory balances for excess quantities and obsolescence on a regular basis by analyzing estimated demand, inventory on hand, sales levels and other information, and reduce inventory balances to net realizable value for excess and obsolete inventory based on this analysis. Unanticipated changes in technology or customer demand could result in a decrease in demand for one or more of our products, which may require a write down of inventory that could negatively affect operating results.

Litigation and Other Contingencies

We apply Statement of Financial Accounting Standards (“SFAS”) No. 5, “Accounting for Contingencies,” to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, we disclose material contingencies deemed to be reasonably possible and accrue loss contingencies when, in consultation with our legal advisors, we conclude that a loss is probable and reasonably estimable (Refer to Part I, Item 1, Note 5 of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q). The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management’s estimates.

Income Taxes

We account for income taxes under the asset and liability method, which provides that deferred tax assets and liabilities be recognized for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities and expected benefits of utilizing net operating loss and tax credit carryforwards. We record a valuation allowance where it is more likely than not that the deferred tax assets will not be realized. Each period we evaluate the need for a valuation allowance for our deferred tax assets and we adjust the valuation allowance so that we record net deferred tax assets only to the extent that we conclude it is more likely than not that these deferred tax assets will be realized.

As a result of the implementation of FIN 48, we recognize liabilities for uncertain tax positions based on the two step process prescribed in FIN 48. To the extent a tax position does not meet a more likely than not level of certainty, no benefit is recognized in the financial statements. If a position meets the more likely than not level of certainty, it is recognized in the financial statements at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. However, the actual liability for unrealized tax benefit in any such contingency may be materially different from our estimates, which could result in the need to record additional liability for unrecognized tax benefits or potentially adjust previously recorded liabilities for unrealized tax benefits.

Stock-Based Compensation

We account for all stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123-R, "Share-Based Payment" ("SFAS 123-R"). Under these provisions, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The fair values of all stock options granted are estimated using a binomial model, and the fair values of all ESPP shares are estimated using the Black-Scholes-Merton option pricing model. Both the binomial and the Black-Scholes-Merton models require the input of highly subjective assumptions. Under SFAS 123-R, we are required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ significantly from the original estimate, stock-based compensation expense and our results of operations could be materially impacted.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances, but provides clarification on acceptable fair valuation methods and applications. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact the adoption of SFAS 157 will have on our consolidated financial statements beginning fiscal 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact SFAS 159 will have on our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Disclosure About Foreign Currency Risk**

Although the majority of our transactions are in U.S. Dollars, some transactions are based in various foreign currencies. We purchase short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on our results of operations. The contract maturity dates do not exceed nine months. We do not purchase short-term forward exchange contracts for trading purposes. Currently, we focus on hedging our foreign currency risk related to the Thai Baht, Malaysian Ringgit, Euro and the British Pound Sterling. Thai Baht and Malaysian Ringgit contracts are designated as cash flow hedges. All other contracts are designated as fair value hedges. See Part II, Item 8, Note 1 in the Notes to Consolidated Financial Statements, included in our Annual Report on Form 10-K for the year ended June 29, 2007.

As of September 28, 2007, we had the following purchased foreign currency forward exchange contracts outstanding (in millions, except weighted average contract rate):

	Contract Amount	Weighted Average Contract Rate*	Unrealized Gain (Loss)
Foreign currency forward contracts:			
Thai Bhat	\$496.2	34.07	\$ 1.0
Malaysian Ringgit	\$243.1	3.44	(1.6)
Euro	\$ 2.8	0.70	—
British Pound Sterling	\$ 4.4	0.49	—

During the three-month periods ended September 28, 2007 and September 29, 2006, total net realized transaction and forward exchange contract currency gains and losses were not material to the condensed consolidated financial statements.

Disclosure About Other Market Risks*Variable Interest Rate Risk*

At our option, borrowings under the Bridge Facility bear interest at either a Base Rate plus a margin, or at LIBOR plus a margin. The Base Rate is calculated at the higher of (i) the Federal Funds Rate plus a margin, (ii) the prime rate, or (iii) a computed rate based on a three-week moving average rate of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks. If either the base rate or LIBOR rate increase, our interest payments would also increase. A one percent increase in the variable rate of interest on the Bridge Facility would increase interest expense by approximately \$8 million annually.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective. There were no changes in our internal control over financial reporting during the quarter ended September 28, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 5 of our Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference in response to this item.

Item 1A. RISK FACTORS

We have updated the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended June 29, 2007, as set forth below. We do not believe any of the updates constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 29, 2007.

Declines in average selling prices (“ASPs”) in the hard drive industry could adversely affect our operating results.

The hard drive industry historically has experienced declining ASPs. Our ASPs tend to decline when competitors lower prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share. Our ASPs also decline when there is a shift in the mix of product sales, and sales of lower priced products increase relative to those of higher priced products. When ASPs in the hard drive industry decline, our ASPs are also likely to decline, which adversely affects our operating results.

If we fail to anticipate or timely respond to changes in the markets for hard drives, our operating results could be adversely affected.

Over the past few years the consumer market for computers has shifted significantly towards lower priced systems. If we are not able to continue to offer a competitively priced hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

The market for hard drives is also fragmenting into a variety of devices and products. Many industry analysts expect, as do we, that as content increasingly converts to digital technology from the older, analog technology, the technology of computers and consumer electronics will continue to converge, and hard drives will be found in many CE products other than computers. In addition, we expect that the consumer market for multi-media applications, including audio-video products, incorporating high capacity, and handheld consumer storage will continue to grow. However, because this market remains relatively new, accurate forecasts for future growth remain challenging.

Moreover, some devices, such as personal video recorders and digital video recorders, or some new PC operating systems which allow greater consumer choice in levels of functionality, therefore allowing for greater market differentiation, may require attributes not currently offered in our products, resulting in a need to expend capital to develop new interfaces, form factors, technical specifications or hard drive features, increasing our overall operational expense without corresponding incremental revenue at this stage. If we are not successful in continuing to deploy our hard drive technology and expertise to develop new products for the emerging CE market, or if we are required to incur significant costs in developing such products, it may harm our operating results.

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

Demand for our hard drives depends on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market has experienced periods of excess capacity which can lead to liquidation of excess inventories and intense price competition. If intense price competition occurs, we may be forced to lower prices sooner and more than expected, which could result in lower revenue and gross margins.

Our failure to accurately forecast market and customer demand for our products could adversely affect our business and financial results.

The hard drive industry faces difficulties in accurately forecasting market and customer demand for its products. The variety and volume of products we manufacture is based in part on these forecasts. If our forecasts exceed actual market demand, or if market demand decreases significantly from our forecasts, then we could experience periods of product oversupply and price decreases, which could impact our financial performance. If our forecasts

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do not meet actual market demand, or if market demand increases significantly beyond our forecasts, then we may not be able to satisfy customer product needs, which could result in a loss of market share if our competitors are able to meet customer demands.

We also use forecasts in making decisions regarding investment of our resources. For example, as the hard drive industry transitions from the Parallel Advanced Technology Attachment (“PATA”) interface to the SATA interface, we may invest more resources in the development of products using the SATA interface. If our forecasts regarding the replacement of the PATA interface with the SATA interface are inaccurate, we may not have products available to meet our customers’ needs.

In addition, although we receive forecasts from our customers, they are not obligated to purchase the forecasted amounts. In particular, sales volumes in the distribution and retail channels are volatile and harder to predict than sales to our OEM or ODM customers. We consider these forecasts in determining our component needs and our inventory requirements. If we fail to accurately forecast our customers’ product demands, we may have inadequate or excess inventory of our products or components, which could adversely affect our operating results.

Increases in areal density may outpace customers’ demand for storage capacity, which may lower the prices our customers are willing to pay for new products.

Historically, the industry has experienced periods of variable areal density growth rates. When the rate of areal density growth increases, the rate of increase may exceed the increase in our customers’ demand for aggregate storage capacity. Furthermore, our customers’ demand for storage capacity may not continue to grow at current industry estimates as a result of developments in the regulation and enforcement of digital rights management or otherwise. These factors could lead to our customers’ storage capacity needs being satisfied with lower capacity hard drives at lower prices, thereby decreasing our revenue. As a result, even with increasing aggregate demand for storage capacity, our ASPs could decline, which could adversely affect our results of operations.

A low cost structure is critical to our operating results and increased costs may adversely affect our operating margin.

A low cost structure for our products, including critical components, labor and overhead, is critical to the success of our business and our operating results depend on our ability to maintain competitive cost structures on new and established products. If our competitors are able to achieve a lower cost structure for manufacturing hard drives, and we are unable to match their cost structure, we could be at a competitive disadvantage to those competitors.

Shortages of commodity materials, or use by other industries of materials used in the hard drive industry, may increase our cost structure.

There are costs for certain commodity materials, an increase in which increases our costs of manufacturing and transporting hard drives and key components. Shortages of materials such as stainless steel, aluminum, nickel, neodymium, ruthenium or platinum increase our costs and may result in lower operating margins if we are unable to find ways to mitigate these increased costs. For example, perpendicular recording technology requires increased usage of precious metals such as platinum and ruthenium and the price of ruthenium has increased significantly and may continue to be volatile and adversely affect our operating margins. Additionally, if other high volume industries increase their demand for materials such as these, our costs may further increase which could have an adverse effect on our operating margins. The variability in the cost of oil also affects our transportation costs and may result in lower operating margins if we are unable to pass these increased costs through to our customers.

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

Product life cycles lengthened over the four years beginning in calendar year 2002 due in large part to a decrease in the rate of hard drive areal density growth. However, with the use of perpendicular recording in hard drives beginning in calendar year 2006, we anticipate that the life cycle of these products may shorten. If product life cycles lengthen or shorten, we may need to develop new technologies or programs to reduce our costs on any particular product to maintain competitive pricing for that product. This may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results. In addition, changes in product life cycles also make it more difficult to recover the cost of product development before the product becomes obsolete. Our failure to recover the cost of product development in the future could adversely affect our operating results.

If we fail to make the technical innovations necessary to continue to increase areal density, we may fail to remain competitive.

New products in the hard drive market typically require higher areal densities than previous product generations, posing formidable technical and manufacturing challenges. Higher areal densities require existing head and media technology to be improved or new technology developed to accommodate more data on a single disk. In addition, our introduction of new products during a technology transition increases the likelihood of unexpected quality concerns. Our failure to bring high quality new products to market on time and at acceptable costs may put us at a competitive disadvantage to companies that achieve these results.

A fundamental change in recording technology could result in significant increases in our operating expenses and could put us at a competitive disadvantage.

The industry is developing and now implementing new recording technologies that enable greater recording densities than currently available using magnetoresistive head technology, including perpendicular and tunneling junction technology, each of which represent a significant change in fundamental recording technology. This shift in technology is difficult to implement and historically, when the industry experiences a fundamental change in technology, any manufacturer that fails to successfully and timely adjust their designs and processes to accommodate the new technology, fails to remain competitive.

There are some technologies, such as current-perpendicular-to-plane (“CPP”) and heat assisted magnetic recording (“HAMR”), discrete track recording (“DTR”) and other similar potentially break through technology that, if they can be implemented by a competitor on a commercially viable basis ahead of the industry, will represent a revolutionary recording technology that could put us at a competitive disadvantage.

As a result of these technology shifts, we could incur substantial costs in developing new technologies, such as, heads, media, and tools to remain competitive. If we fail to successfully implement these new technologies, or if we are significantly slower than our competitors at implementing new technologies, we may not be able to offer products with capacities that our customers desire. For example, new recording technology requires changes in the manufacturing process of heads and media, which may cause longer production times and reduce the overall availability of media in the industry. Additionally, the new technology requires a greater degree of integration between heads and media which may lengthen our time of development of hard drives using this technology. Furthermore, as we attempt to develop and implement new technologies, we may become more dependent on suppliers to ensure our access to components that accommodate the new technology. These results would increase our operating costs, which may negatively impact our operating results.

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

Storage capacity of the hard drive, as manufactured by us, is determined by the number of disks and each disk’s areal density. Areal density is a measure of the amount of magnetic bits that can be stored on the recording surface of the disk. Generally, the higher the areal density, the more information can be stored on a single platter. Historically, we have been able to achieve a large percentage of cost reduction through increases in areal density. Increases in areal density mean that the average drive we sell has fewer heads and disks for the same capacity and, therefore, may result in a lower component cost. However, because increasing areal density has become more difficult in the hard drive industry, such increases may require increases in component costs and other opportunities to reduce costs may not continue at historical rates. Additionally, increases in areal density may require us to make further capital expenditures on items such as new testing equipment needed as a result of an increased number of GB per platter. Our inability to achieve cost reductions could adversely affect our operating results.

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If we fail to maintain effective relationships with our major component suppliers, our supply of critical components may be at risk and our profitability could suffer.

We do make most of our own heads and our own media for some of our product families, however we do not manufacture many of the component 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 major component suppliers. We must also effectively integrate different products from a variety of suppliers, each of which employs variations on technology, which can impact, for example, feasible combinations of heads and media components. In August 2003, we settled litigation with a supplier who previously was the sole source of read channel devices for our hard drives. As a result of the disputes that gave rise to the litigation, our profitability was at risk until another supplier’s read channel devices could be designed into our products. Similar disputes with other strategic component suppliers could adversely affect our operating results.

Dependence on a limited number of qualified suppliers of components and manufacturing equipment could lead to delays, lost revenue or increased costs.

Certain components are available from a limited number of suppliers. Because we depend on a limited number of suppliers for certain hard drive components and manufacturing equipment, each of the following could significantly harm our operating results:

- an increase in the cost of such components or equipment;
- an extended shortage of required components or equipment;
- consolidation of key suppliers, such as the acquisition of Brilliant Manufacturing Limited by Nidec Corporation, the acquisition of Agere Systems Inc. by LSI Logic Corporation, the planned acquisition of Alps Electric Co. Ltd.’s magnetic device division’s assets and related intellectual property by TDK Corp, and the planned acquisition of Magnecomp Precision Technology Public Company Limited by TDK Corp;
- failure of a key supplier’s business process; or
- the failure of key suppliers to remain in business, to remain independent merchant suppliers, to adjust to market conditions, or to meet our quality, yield or production requirements.

Our future operating results may also depend substantially on our suppliers’ ability to timely qualify their components in our programs, and their ability to supply us with these components in sufficient volumes to meet our production requirements. A number of the components that we use are available from only a single or limited number of qualified outside suppliers, and may be used across multiple product lines. In addition, some of the components (or component types) used in our products are used in other devices, such as mobile telephones and digital cameras. If there is a significant simultaneous upswing in demand for such a component (or component type) from several high volume industries, resulting in a supply reduction, or a component is otherwise in short supply, or if a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. For example, in the last year the hard drive industry faced a tightness in the availability of materials used in the manufacture of magnetic components, such as heads, media and magnets. If we are unable to obtain sufficient quantities of materials used in the manufacture of magnetic components, or other necessary components, we may experience production delays which could cause us loss of revenue. If a component becomes unavailable, we could suffer significant loss of revenue.

In addition, certain equipment we use in our manufacturing or testing processes is available only from a limited number of suppliers. Some of this equipment uses materials that at times could be in short supply. If these materials are not available, or are not available in the quantities we require for our manufacturing and testing processes, our ability to manufacture our products could be impacted, and we could suffer significant loss of revenue.

Contractual commitments with component suppliers may result in us paying increased charges and cash advances for such components.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying components. As a result, we may be subject to cancellation charges if we cancel orders, which may occur when we make technology transitions or when our component needs change. In addition, we have entered into contractual commitments with component suppliers and may enter into contractual commitments with other component

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suppliers, in an effort to increase and stabilize the supply of those components, and enable us to purchase such components at favorable prices. Some of these commitments require or may require us to buy a substantial number of components from the supplier or make significant cash advances to the supplier, however these commitments may not result in a satisfactory increase or stabilization of the supply of such components.

Our high-volume hard drive and media manufacturing facilities, and the manufacturing facilities of many of our suppliers, are concentrated in Asia, which subjects us to the risk of damage or loss of any of these facilities and localized risks to employees in these locations.

Our high-volume hard drive and media manufacturing facilities are in Malaysia and Thailand and the manufacturing facilities of many of our suppliers are in Asia. A condition or event such as political instability, civil unrest or a power outage, or a fire, flood, earthquake or other disaster that adversely affects any of these facilities or our ability to manufacture could limit the total volume of hard drives we are able to manufacture and result in a loss of sales and revenue and harm our operating results. Similarly, a localized health risk affecting our employees or the staff of our suppliers, such as a new pandemic influenza in Asia, could impair the total volume of hard drives that we are able to manufacture.

Our head manufacturing operations include a single wafer fabrication facility in California and a single head gimbal assembly facility in Thailand, and our media operations include four facilities in Malaysia, which subjects us to substantial risk of damage or loss if operations at either of these facilities are disrupted.

As we have previously discussed in public statements, our business plan presently contemplates that we will design and manufacture approximately 70% to 80% of the heads and media required for the hard drives we manufacture. We fabricate wafers in our Fremont, California facility, and the wafers are then sent to our Thailand facility for slider fabrication and wafer slicing and HGA assembly and testing. Additionally, we manufacture the majority of our media and substrates in four facilities in Penang, Johor and Sarawak, Malaysia. A fire, flood, earthquake or other disaster, condition or event such as a power outage that adversely affects any of these facilities would significantly affect supply of our heads or media, and limit our ability to manufacture hard drives which would result in a substantial loss of sales and revenue and a substantial harm to our operating results.

If we fail to successfully continue to integrate our recently acquired media business into our operations in the expected time frame, or at all, it may adversely affect our future results.

We believe that the recent acquisition of our media business will result in certain benefits, including certain cost, operational and other efficiencies and synergies. The success of this acquisition will depend on our ability to realize the anticipated benefits from vertically integrating our media business into our operations and our media technology with our head technology. We may fail to realize the anticipated benefits of our media business on a timely basis, or at all, for a variety of reasons, including the following:

- failure to integrate our media technology with our head technology, or failure to leverage such integration, quickly and effectively;
- failure to successfully manage relationships with our media and substrate customers and the possibility of unanticipated claims from such parties or loss of sales and order cancellation risk; and
- failure to successfully manage relationships with our other media suppliers.

If we are not able to successfully continue to integrate our media business and technology into our operations, the anticipated benefits and efficiencies of the acquisition may not be realized fully or at all, or may take longer to realize than expected, and our ability to compete, our profit margins and our results of operations may be adversely affected.

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There are certain additional capital expenditure costs and asset utilization risks to our business associated with our strategy to vertically integrate our operations.

Our vertical integration of head and media manufacturing resulted in a fundamental change in our operating structure, as we now manufacture heads and media for use in many of the hard drives we manufacture. Consequently, we make more capital investments than we would if we were not vertically integrated and carry a higher percentage of fixed costs than assumed in our prior financial business model. If the overall level of production decreases for any reason, and we are unable to reduce our fixed costs to match sales, our head or media manufacturing assets may face under-utilization that may impact our results of operations. We are therefore subject to additional risks related to overall asset utilization, including the need to operate at high levels of utilization to drive competitive costs, and the need for assured supply of components that we do not manufacture ourselves.

In addition, we may incur additional risks, including:

- if we are unable to manufacture a sufficient supply of heads or media, there may be insufficient third party sources to satisfy our needs;
- third party head or media suppliers may not continue to do business with us or may not do business with us on the same terms and conditions we have previously enjoyed;
- claims that our manufacturing of heads or media may infringe certain intellectual property rights of other companies; and
- difficulties locating in a timely manner suitable manufacturing equipment for our head or media manufacturing processes and replacement parts for such equipment.

If we do not adequately address the challenges related to our head or media manufacturing operations, our ongoing operations could be disrupted, resulting in a decrease in our revenue or profit margins and negatively impacting our operating results.

Our operating results will be adversely affected if we fail to optimize the overall quality, time-to-market and time-to-volume of new and established products.

To achieve consistent success with our customers, we must balance several key attributes such as time-to-market, time-to-volume, quality, cost, service, price and a broad product portfolio. If we fail to:

- maintain overall quality of products on new and established programs;
- produce sufficient quantities of products at the capacities our customers demand while managing the integration of new and established technologies;
- develop and qualify new products that have changes in overall specifications or features that our customers may require for their business needs;
- obtain commitments from our customers to qualify new products, redesigns of current products, or new components in our existing products;
- obtain customer qualification of these products on a timely basis by meeting all of our customers' needs for performance, quality and features;
- maintain an adequate supply of components required to manufacture our products;
- maintain the manufacturing capability to quickly change our product mix between different capacities, form factors and spin speeds in response to changes in customers' product demands; or
- consistently meet stated quality requirements on delivered products,

our operating results will be adversely affected.

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If we are unable to timely and cost-effectively develop heads and media with leading technology and overall quality, our ability to sell our products may be significantly diminished, which could materially and adversely affect our business and financial results.

Under our business plan, we are developing and manufacturing a substantial portion of the heads and media used in some of the hard drive products we manufacture. Consequently, we are more dependent upon our own development and execution efforts and less able to take advantage of head and media technologies developed by other manufacturers. Technology transition for head and media designs is critical to increasing our volume production of heads and media. There can be no assurance, however, that we will be successful in timely and cost-effectively developing and manufacturing heads or media for products using future technologies. We also may not effectively transition our head or media design and technology to achieve acceptable manufacturing yields using the technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the heads or media we manufacture. In addition, we may not have access to external sources of supply without incurring substantial costs. For example, we are currently in the process of converting some of our media equipment from LMR to PMR technology. We face various challenges in this conversion, and failure to effectively manage this conversion may cause us to incur substantial additional costs for new equipment and result in the need to purchase more media from the merchant market, which would negatively impact our business and financial results.

Failure by certain suppliers to effectively and efficiently develop and manufacture components for our products may adversely affect our operations.

We rely on suppliers for various component parts that we integrate into our hard drives but do not manufacture ourselves, such as semiconductors, motors, flex circuits and suspensions. We are dependent on the suppliers of these various components to be able and willing to dedicate adequate engineering resources to develop technology that can be successfully integrated with our products, and to manufacture these components efficiently. The failure of component suppliers to effectively and efficiently develop and manufacture technology that can be integrated into our products may cause us to experience inability or delay in our manufacturing and shipment of hard drive products, or our expansion into new technology and markets, therefore adversely affecting our business and financial results.

If we fail to qualify our products with our customers, they may not purchase any units of a particular product line, which would have a significant adverse impact on our sales.

We regularly engage in new product qualification with our customers. Once a product is accepted for qualification testing, failures or delays in the qualification process can result in 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 OEMs, which continue to consolidate their share of the PC and CE markets. If product life cycles lengthen, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could harm our competitive position. These risks are increased because we expect cost improvements and competitive pressures to result in declining gross margins on our current generation products.

We are subject to risks related to product defects, which could result in product recalls and could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated due to the unenforceability of liability limitations.

We warrant the majority of our products for periods of one to five years. We test our hard drives in our manufacturing facilities through a variety of means. However, there can be no assurance that our testing will reveal latent defects in our products, which may not become apparent until after the products have been sold into the market. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement and, if a product recall occurs during the product's warranty period, we may be required to replace the defective product. In addition, a product recall may damage our relationship with our customers, and we may lose market share with our customers, including our OEM and ODM customers.

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

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

It may be possible for our current or future competitors to gain an advantage in product technology, manufacturing technology, or process technology, which may allow them to offer products or services that have a significant advantage over the products and services that we offer. Advantages could be in capacity, performance, reliability, serviceability, or other attributes.

Higher capacity storage needs have typically been better served by magnetic hard drives than flash memory as hard drive manufacturers can offer better value at high capacities, while lower capacity needs have been successfully served by solid state storage such as flash memory technology. Advances in magnetic, optical, semiconductor or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than our products. If we fail to be cost competitive against flash memory, we could be at a competitive disadvantage to companies using semiconductor technology.

Further industry consolidation could provide competitive advantages to our competitors.

The hard drive industry has experienced consolidation over the past several years. Consolidation by our competitors may enhance their capacity, abilities and resources and lower their cost structure, causing us to be at a competitive disadvantage. Additionally, continued industry consolidation may lead to uncertainty in areas such as component availability, which could negatively impact our cost structure.

Sales in the distribution channel are important to our business, and if we fail to maintain brand preference with our distributors or if distribution markets for hard drives weaken, our operating results could suffer.

Our distribution customers typically sell to small computer manufacturers, dealers, systems integrators and other resellers. We face significant competition in this channel as a result of limited product qualification programs and a significant focus on price and availability of product. If we fail to remain competitive in terms of our technology, quality, service and support, our distribution customers may favor our competitors, and our operating results could suffer. We also face significant risk in the distribution market for hard drives. If the distribution market weakens as a result of a slowing PC growth rate, technology transitions or a significant change in consumer buying preference from white box to branded PCs, or we experience significant price declines due to oversupply in the distribution channel, then our operating results would be adversely affected.

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

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or attempting to 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. We also face competition from other companies that produce alternative storage technologies like flash memory. These factors, taken together, may result in significant shifts in market share among the industry's major participants. In addition, product recalls can lead to a loss of market share, which could adversely affect our operating results.

Some of our competitors with diversified business units outside the hard drive industry periodically sell disk drives at prices that we cannot profitably match.

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

If we do not successfully expand into new hard drive markets and manage the issues associated with new products and new markets, our business may suffer.

To remain a significant supplier of hard drives, we will need to offer a broad range of hard drive products to our customers. We currently offer a variety of 3.5-inch hard drives for the desktop, enterprise, CE and external storage markets, and we also offer 2.5-inch form factor hard drives for the mobile, CE and external storage markets. However, demand for hard drives may shift to products in smaller form factors, which our competitors may already offer. Expansion into other hard drive markets and resulting increases in volume capacity requirements may require us to make substantial additional capital investments due in part because our operations are vertically integrated.

While we continue to develop new products and look to expand into other hard drive markets, the success of our new product introductions is dependent on a number of factors, including our ability to anticipate and manage a variety of issues associated with these new products and new markets, such as difficulties faced in manufacturing ramp, market acceptance, effective management of inventory levels in line with anticipated product demand, quality problems or other defects in the early stages of new product introduction that were not anticipated in the design of those products, and higher return rates of external storage products due to more lenient return policies in the retail market. Further, we need to identify how any of the hard drive markets that we are expanding into may have different characteristics from the markets in which we currently exist, such as, demand volume growth rates, demand seasonality, product generations development rates, customer concentrations, and cost and performance requirements, and we must properly address these differences. If we fail to successfully develop and manufacture new products and expand into new hard drive markets, customers may decrease the amount of our products that they purchase, and we may lose business to our competitors who offer these products.

If we do not properly manage the technology transitions of our products, our operating results may be negatively affected.

Many of the markets in which we offer our products are undergoing technology transitions. For example, in order to handle higher data transfer rates, the PC and enterprise markets are transitioning from parallel interfaces, such as PATA and SCSI, to serial interfaces, such as SATA and SAS, respectively. We must effectively manage the transition of the features of our products to serial interfaces in order to remain competitive and cost effective. In the PC market, we currently offer PATA and SATA products and must timely and efficiently manage both our manufacture of PATA products through their end of life and our ramp of SATA products and features. If we fail to successfully manage the transition from parallel interfaces to serial interfaces, our operating results may suffer.

Expanding into new hard drive markets exposes our business to different seasonal demand cycles, which in turn could adversely affect our operating results.

The CE and retail markets have different seasonal pricing and volume demand cycles as compared to the PC market. By expanding into these markets, we became exposed to seasonal fluctuations that are different from, and in addition to, those of the PC market. For example, because the primary customer for products such as our branded products are individual consumers, these markets experience a dramatic increase in demand during the winter holiday season. If we do not properly adjust our supply to new demand cycles such as this, we risk having excess inventory during periods of low demand and insufficient inventory during periods of high demand, therefore adversely affecting our operating results.

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If we do not successfully continue to expand into the mobile market, or if we do not accurately predict the growth and demands of the mobile market, our business may suffer.

We began shipping 2.5-inch form factor hard drives for the mobile market during calendar year 2004. If we are unable to successfully continue to expand into the mobile market, we would have a competitive disadvantage to companies that are successful in this regard, and our business and financial results could suffer. To increase the sale of our products in the mobile market, we must adapt to the differences between the desktop and mobile markets, such as different requirements, features and competitors. In addition, if we continue to incur significant costs in manufacturing and selling the 2.5-inch hard drives, and if we are unable to recover those costs from sales of the products, then we may not be able to compete successfully in this market and our operating results may suffer.

Furthermore, if we do not accurately predict the future growth and demands of the mobile market, our business may suffer. For example, if the volume demand of the PC market shifts from desktop computers to notebook computers at a faster rate than we anticipate, we would be at a more significant competitive disadvantage to companies who have been more successful in the mobile market.

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

We sell our branded products directly to a select group of major retailers, for example, computer superstores and CE stores, and authorize sales through distributors to other retailers and online resellers. Our current retail customer base is primarily in the United States, Canada and Europe. We are facing increased competition from other companies for shelf space at a small number of major retailers that have strong buying power and pricing leverage. If we fail to successfully maintain a customer preference for Western Digital brand products or fail to successfully expand into multiple channels, our operating results may be adversely affected. We face strong competition in maintaining and trying to grow our market share in the retail market, particularly because of the relatively low barriers to entry in this market. We will continue to introduce new products in the retail market that incorporate our disk drives, however there can be no assurance that these products will gain market acceptance, and if they do not, our operating results could suffer.

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

During the quarter ended September 28, 2007, a large percentage of our revenue came from sales to our top 10 customers, which accounted for 45% of our revenue. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. 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 may be able to cancel an order or 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, if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship then our operating results would likely be harmed. In addition, if customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue.

We may be unable to retain our key staff and skilled employees.

Our success depends upon the continued contributions of our key staff and skilled employees, many of whom would be extremely difficult to replace. Worldwide competition for skilled employees in the hard drive industry is intense. Volatility or lack of positive performance in our stock price may adversely affect our ability to retain key staff or skilled employees who have received equity compensation. If we are unable to retain our existing key staff or skilled employees, or hire and integrate new key staff or skilled employees, or if we fail to implement succession plans for our key staff, our operating results would likely be harmed.

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Manufacturing and marketing our products abroad subjects us to numerous risks.

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

- obtaining requisite United States of America and foreign governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest;
- limited transportation availability, delays, and extended time required for shipping, which risks may be compounded in periods of price declines;
- higher freight rates;
- labor problems;
- trade restrictions or higher tariffs;
- exchange, currency and tax controls and reallocations;
- increasing labor and overhead costs; and
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

While neither the 2006 Thai coup d'état nor terrorist bombings in Bangkok had any appreciable impact on our manufacturing operations, these events illustrate the risks associated with our foreign manufacturing operations and foreign marketing efforts and the importance to our business of stability in the countries in which we operate.

Terrorist attacks may adversely affect our business and operating results.

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

Sudden disruptions to the availability of freight lanes could have an impact on our operations.

We ship the majority of our products to our various customers via air freight. The sudden unavailability of air cargo operations used to ship our products would impair our ability to deliver our products in a timely and efficient manner, which could adversely impact our operating results. We also ship our product via ocean freight, and events or conditions at shipping ports, such as labor difficulties or disputes, could also impact our operating results by impairing our ability to timely and efficiently deliver these products.

We face litigation risks relating to our historical stock option grants that could have a material adverse effect on the operation of our business.

Several purported derivative actions were filed nominally on our behalf against certain of our current and former directors and officers in connection with our historical stock option granting practices. See Part II, Item 1, "Legal Proceedings" for a more detailed description of these proceedings. We are and may in the future be subject to other litigation or government investigations arising in connection with such option practices. These proceedings may be time-consuming, expensive and disruptive to normal business operations, and the outcome of any such proceeding is difficult to predict. The defense of such lawsuits or investigations could result in significant expense and the diversion of our management's time and attention from the operation of our business, which could impede our ability to achieve our business objectives. Some or all of the amount we may be required to pay to defend or to satisfy a judgment or settlement of any or all of these proceedings may not be covered by insurance.

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Under indemnification agreements we have entered into with our current and former officers and directors, we are required to indemnify them, and advance expenses to them, in connection with their participation in proceedings arising out of their service to us. These payments may be material.

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

The hard drive industry has been characterized by significant litigation. This includes litigation relating to patent and other intellectual property rights, product liability claims and other types of litigation. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of litigation are inherently uncertain and may result in adverse rulings or decisions. We may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

We evaluate notices of alleged patent infringement and notices of patents from patent holders that we receive from time to time. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. In addition, we may decide to settle a claim or action against us, which settlement could be costly. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would increase our costs and harm our operating results.

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

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

Environmental regulation costs could harm our operating results.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, including various European Union member countries. For example, the European Union has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”) and the Waste Electrical and Electronic Equipment (“WEEE”) directives. RoHS prohibits the use of certain substances, including lead, in certain products, including hard drives, and the WEEE directive obligates parties that place electrical and electronic equipment onto the market in the EU to put a clearly identifiable mark on the equipment, register with and report to EU member countries regarding distribution of the equipment, and provide a mechanism to take-back and properly dispose of the equipment. There is still some uncertainty in certain EU countries as to which party involved in the manufacture, distribution and sale of electronic equipment will be ultimately responsible for registration, reporting and disposal. Similar legislation may be enacted in other locations where we manufacture or sell our products, such as Asia. We will need to ensure that we comply with such laws and regulations as they are enacted, and that our component suppliers also timely comply with such laws and regulations. If we fail to timely comply with the legislation, our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and results of operations.

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In connection with our compliance with such environmental laws and regulations, we could incur substantial costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws, we could be subject to governmental fines and liability to our customers. If we have to make significant capital expenditures to comply with environmental laws, or if we are subject to significant expenses in connection with a violation of these laws, our financial condition or operating results could suffer.

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

Because we manufacture our products abroad, our operating costs are subject to fluctuations in foreign currency exchange rates. Further fluctuations in the exchange rate of the Thai Baht and of the Malaysian Ringgit may negatively impact our operating results.

The Thai Baht is a free floating currency while the Malaysian Ringgit exchange rate policy is one of a managed float. We have attempted to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward contracts. However, these contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place. Currently, we hedge the Thai Baht, Malaysian Ringgit, Euro and British Pound Sterling with forward contracts.

If the U.S. dollar exhibits sustained weakness against most foreign currencies, the U.S. dollar equivalents of unhedged manufacturing costs could increase because a significant portion of our production costs are foreign-currency denominated. Conversely, there would not be an offsetting impact to revenues since revenues are substantially U.S. dollar denominated.

Increases in our customers' credit risk could result in credit losses and an increase in our operating costs.

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies, such as ODMs, that provide manufacturing services to our OEM customers. Because these subcontractors are generally not as well capitalized as our direct OEM customers, this subcontractor model exposes us to increased credit risks. Our agreements with our OEM customers may not permit us to increase our product prices to alleviate this increased credit risk. Additionally, as we attempt to expand our OEM and distribution channel sales into emerging economies such as Brazil, Russia, India and China, the customers in these regions may have relatively short operating histories, making it more difficult for us to accurately access the associated credit risks. Any credit losses we may suffer as a result of these increased risks, or as a result of credit losses from any significant customer, would increase our operating costs, which may negatively impact our operating results.

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

We often ship a high percentage of our total quarterly sales in the third month of the quarter, which makes it difficult for us to forecast our financial results before the end of the quarter. In addition, our quarterly projections and results may be subject to significant fluctuations as a result of a number of other factors including:

- the timing of orders from and shipment of products to major customers;
- our product mix;
- changes in the prices of our products;
- manufacturing delays or interruptions;
- acceptance by customers of competing products in lieu of our products;

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- variations in the cost of components for our products;
- limited availability of components that we obtain from a single or a limited number of suppliers;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PCs often due to technological advances; and
- availability and rates of transportation.

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

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

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

The market price of our common stock is volatile.

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

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

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In addition, general economic conditions may cause the stock market to experience extreme price and volume fluctuations from time to time that particularly affect the stock prices of many high technology companies. These fluctuations often appear to be unrelated to the operating performance of the companies.

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

Our current plans for long-term financing are subject to the changing conditions of the financial lending markets.

We funded the acquisition of our media operations in part through borrowings under a \$1.25 billion bridge loan facility. We plan to implement a long-term financing arrangement during 2008, but our ability to obtain long-term financing on commercially favorable terms, or at all, is subject to the changing conditions of the financial lending markets which have been negatively impacted by the collapse of the sub-prime lending market. If the lending markets continue to worsen, interests rates for commercial loans may rise or these loans may become unavailable. An increase in commercial loan interest rates would have a negative impact on the terms available to us for long-term financing, thus increasing the cost of our debt and decreasing our cash flow available for financing working capital.

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

Our most recent evaluation resulted in our conclusion that as of September 28, 2007, in compliance with 302 of the Sarbanes-Oxley Act of 2002, our disclosure controls and procedures were effective. We believe that we currently have adequate internal control procedures in place for future periods; however, if our internal controls are found to be ineffective, our financial results or our stock price may be adversely affected.

[Table of Contents](#)**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(c) The following table provides information about repurchases by us of our common stock during the quarter ended September 28, 2007:

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share(1)</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Program</u>	<u>Maximum Value of Shares that May Yet be Purchased Under the Program(2)</u>
Jun. 30, 2007 — Jul. 27, 2007	2,502(3)	\$ 22.83	—	\$ 62,410,513
Jul. 28, 2007 — Aug. 24, 2007	904,974(4)	\$ 19.11	841,200	\$ 46,475,324
Aug. 25, 2007 — Sept. 28, 2007	35,648(3)	\$ 23.36	—	\$ 46,475,324
Total	<u>943,124</u>	<u>\$ 19.29</u>	<u>841,200</u>	<u>\$ 46,475,324</u>

- (1) Average price paid per share excludes commissions.
- (2) As announced on November 21, 2005, our Board of Directors has authorized us to repurchase \$250 million of our common stock in open market transactions. The term of the program is a five-year period from November 17, 2005 to November 17, 2010.
- (3) Represents shares delivered by our employees to us to satisfy tax-withholding obligations upon the vesting of restricted stock.
- (4) Represents 841,200 shares purchased in open-market transactions and 63,774 shares delivered by employees us to satisfy tax-withholding obligations upon the vesting of restricted stock.

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

No matters were submitted to a vote of security holders during the first quarter of 2008.

Table of Contents

Item 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of June 28, 2007, by and among Western Digital Corporation, State M Corporation and Komag, Incorporated (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 1-8703), as filed with the Securities and Exchange Commission on June 29, 2007)
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Incorporated by reference to the Company's Quarterly Report on Form 10-Q (File No. 1-08703), as filed with the Securities and Exchange Commission on February 8, 2006)
3.2	Amended and Restated Bylaws of Western Digital Corporation, as amended effective as of May 10, 2006 (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 1-08703), as filed with the Securities and Exchange Commission on May 16, 2006)
10.1.5	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement — Executives, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.6	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.7	Form of Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement — Executives, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.8	Form of Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement — Employees, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.9	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan Non-Employee Director Option Grant Program, effective as of November 17, 2005, and Form of Notice of Grant of Stock Option and Option Agreement — Non-Employee Directors†*
10.1.10	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan Non-Employee Director Restricted Stock Unit Grant Program, as amended November 9, 2006†*
10.9	Western Digital Corporation Summary of Compensation Arrangements for Named Executive Officers and Directors†*
10.32	Lease Agreement dated May 24, 1996 between Sobrato Development Companies #871 and Komag, Incorporated†
10.32.1	First Amendment to Lease dated February 21, 1997, between Sobrato Development Company #960 and Komag Incorporated†
10.32.2	Second Amendment to Lease dated December 17, 2004, between DIVCO West Properties and Komag, Incorporated†
10.33	First Amendment to Credit Agreement, dated November 5, 2007, among Western Digital Technologies, Inc.; Goldman Sachs Credit Partners L.P., as administrative agent; and the lenders on the signature pages thereto†
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†

† Exhibit filed with this Report.

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

SIGNATURES

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

WESTERN DIGITAL CORPORATION

Registrant

/s/ Timothy M. Leyden

Timothy M. Leyden
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Joseph R. Carrillo

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

Date: November 5, 2007

EXHIBIT INDEX

Exhibit No.	Description
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† Exhibit filed with this Report.

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

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Stock Units
and Stock Unit Award Agreement — Executives**

«fn» «mn» «ln»
«ad1»
«ad2»
«cty», «st» «z»

Award Number:
Plan:
ID:

«nbr»
«pln»
«id»

Congratulations! Effective «optdt», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2004 Performance Incentive Plan (the “Plan”).¹

Vesting²:

Units	Vest Type	Full Vest
«sp1»	«vtpr1»	«vdp1»
«sp2»	«vtp2»	«vdp2»
«sp3»	«vtp3»	«vdp3»
«sp4»	«vtp4»	«vdp4»

Your stock unit award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Unit Awards — Executives (the “Standard Terms”) and the Plan. By accepting the award, you are agreeing to the terms of the award as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Company’s Stock Plans Administrator.

- ¹ The number of stock units subject to the award is subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).
- ² The stock units covered by the award are subject to forfeiture under Section 7 of the attached Standard Terms and Conditions for Stock Unit Awards.



Western Digital Corporation
Lake Forest, California 92630

20511 Lake Forest Drive
Telephone 949 672-7000

**STANDARD TERMS AND CONDITIONS FOR
STOCK UNIT AWARDS — EXECUTIVES**
2004 Performance Incentive Plan

1. Stock Units Subject to 2004 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") Amended and Restated 2004 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

The Stock Units are subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Unit Awards — Executives (these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Award Agreement

The Notice and these Standard Terms, together, constitute the Award Agreement with respect to the Award pursuant to Section 5.3 of the Plan.

3. Deferral of Stock Units

Notwithstanding anything to the contrary contained herein, the Participant may elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer the Stock Units subject to the Award under the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"). If the Participant makes such a deferral election, the Stock Units will be paid (to the extent vested) in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay in the event that the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan. Whether or not the Participant elects to defer the Stock Units, any shares of Common Stock issued or delivered with respect to the Stock Units shall be charged against the applicable share limits of the Plan.

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice.

Stock Unit Award (Executives) Sept. 2007

An Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan. Without limiting the foregoing but subject to Sections 7.5, 7.6 and 7.7 of the Plan, to the extent that the Award is outstanding and otherwise unvested immediately prior to the occurrence of a Change in Control Event, the Award shall vest and become payable as to the outstanding and otherwise unvested Stock Units upon the occurrence of the Change in Control Event. Notwithstanding the foregoing or anything in this Award Agreement or the Plan, if the Participant has elected to defer the Stock Units as provided in Section 3 and the event giving rise to any accelerated vesting pursuant to Section 7 of the Plan is not also a “change in the ownership or effective control” of the Corporation or a “change in the ownership of a substantial portion of the assets” of the Corporation for purposes of Section 409A of the Code, then payment with respect to such deferred Stock Units shall not be made until such Stock Units would have become vested and payable without regard to this Section 4 or Section 7 of the Plan.

The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant’s Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. If the Participant has not made a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. If the Participant has made a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be credited under, and paid in an equivalent number of shares of Common Stock in accordance with the payment provisions of, the Deferred Compensation Plan and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

6. Timing and Manner of Payment of Stock Units

Except as provided in Section 3 or 4 above, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4 or Section 7 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation’s obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 7 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant’s Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the Fair Market Value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

7. Termination of Employment

Subject to earlier vesting as provided in Section 4 and Section 8 hereof, if the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries (regardless of the reason for such termination, whether

with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Stock Units shall be forfeited to the Corporation to the extent such Stock Units have not become vested upon the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's legal representative as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date.

8. Adjustments

The Administrator may accelerate payment and vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator will make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which dividend equivalents are paid pursuant to Section 5.

9. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion, direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the minimum applicable withholding rates. Any deferred Stock Units shall be subject to the tax withholding provisions of the Deferred Compensation Plan.

10. Nontransferability

Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated, encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

11. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any

Stock Unit Award (Executives) Sept. 2007

Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

12. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

13. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 13.

14. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 14).

15. Governing Law

This Award Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

Stock Unit Award (Executives) Sept. 2007

16. Severability

If the arbitrator selected in accordance with Section 14 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

17. Entire Agreement

This Award Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

18. Section Headings

The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Stock Unit Award (Executives) Sept. 2007

**Western Digital Corporation**

ID: 95-2657125

P.O. Box 19665

Lake Forest, CA 92630-7741

(949) 672-7000 x 27985/27986

**Notice of Grant of Stock Units
and Stock Unit Award Agreement**

«fn» «mn» «ln»

«ad1»

«ad2»

«cty», «st» «z»

Award Number:**Plan:****ID:**

«nbr»

«pln»

«id»

Congratulations! Effective «optd», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2004 Performance Incentive Plan (the "Plan").¹

Vesting²:

Units	Vest Type	Full Vest
«sp1»	«vtpr1»	«vdp1»
«sp2»	«vtp2»	«vdp2»
«sp3»	«vtp3»	«vdp3»
«sp4»	«vtp4»	«vdp4»

Your stock unit award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Unit Awards (the "Standard Terms") and the Plan. By accepting the award, you are agreeing to the terms of the award as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Company's Stock Plans Administrator.

¹ The number of stock units subject to the award is subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).

² The stock units covered by the award are subject to forfeiture under Section 7 of the attached Standard Terms and Conditions for Stock Unit Awards.



Western Digital Corporation 20511 Lake Forest Drive
Lake Forest, California 92630 Telephone 949 672-7000

**STANDARD TERMS AND CONDITIONS FOR
STOCK UNIT AWARDS
2004 Performance Incentive Plan**

1. Stock Units Subject to 2004 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") Amended and Restated 2004 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

The Stock Units are subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Unit Awards (these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Award Agreement

The Notice and these Standard Terms, together, constitute the Award Agreement with respect to the Award pursuant to Section 5.3 of the Plan.

3. Deferral of Stock Units

Notwithstanding anything to the contrary contained herein, the Administrator may determine that the Participant is eligible to defer the Stock Units subject to the Award (such determination to be made by delivery to the Participant of a deferral election form). In the event that the Administrator makes such a determination, the Participant may elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer the Stock Units subject to the Award under the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"), in which case the Stock Units will be paid (to the extent vested) in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay in the event that the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan. If the Participant is not permitted to defer the Stock Units, the Stock Units will be paid in accordance with this Award Agreement without regard to this Section 3.

Stock Unit Award (Employees) Sept. 2007

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice.

An Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan; provided, however, that, notwithstanding anything to the contrary in this Award Agreement or the Plan, if the Participant has elected to defer the Stock Units as provided in Section 3 and the event giving rise to any accelerated vesting pursuant to Section 7 of the Plan is not also a “change in the ownership or effective control” of the Corporation or a “change in the ownership of a substantial portion of the assets” of the Corporation for purposes of Section 409A of the Code, then payment with respect to such deferred Stock Units shall not be made until such Stock Units would have become vested and payable without regard to Section 7 of the Plan.

The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant’s Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. Notwithstanding the preceding sentence, if the Participant is permitted to make, and has made, a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be credited under, and paid in an equivalent number of shares of Common Stock in accordance with the payment provisions of, the Deferred Compensation Plan and any applicable deferral election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

6. Timing and Manner of Payment of Stock Units

Except as provided in Section 3 or 4 above, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4 or Section 7 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation’s obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 7 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant’s Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the Fair Market Value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

Stock Unit Award (Employees) Sept. 2007

7. Termination of Employment

Subject to earlier vesting as provided in Section 4 and Section 8 hereof, if the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Stock Units shall be forfeited to the Corporation to the extent such Stock Units have not become vested upon the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's legal representative as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date.

8. Adjustments

The Administrator may accelerate payment and vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator will make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which dividend equivalents are paid pursuant to Section 5.

9. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion, direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the minimum applicable withholding rates. Any deferred Stock Units shall be subject to the tax withholding provisions of the Deferred Compensation Plan.

10. Nontransferability

Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated, encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

Stock Unit Award (Employees) Sept. 2007

11. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

12. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

13. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 13.

14. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 14).

Stock Unit Award (Employees) Sept. 2007

15. Governing Law

This Award Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

16. Severability

If the arbitrator selected in accordance with Section 14 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

17. Entire Agreement

This Award Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

18. Section Headings

The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Stock Unit Award (Employees) Sept. 2007

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Long-Term Cash Award
and Long-Term Cash Award Agreement — Executives**

«fn» «mn» «ln»
«ad1»
«ad2»
«cty», «st» «z»

Award Number:
Plan:
ID:

«nbr»
2004 Performance Incentive Plan
«id»

Congratulations! Effective _____, 20_____, you have been granted a Long-Term Cash Award (a “**Cash Award**”) of Western Digital Corporation. This Cash Award was granted under the 2004 Performance Incentive Plan (the “**Plan**”).

Target Cash Award: \$_____.

Measurement Period covered by grant: _____ to _____ (“Measurement Period”).

Your Cash Award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Long-Term Cash Award – Executives (the “**Standard Terms**”) and the Plan. By accepting the award, you are agreeing to the terms and provisions set forth in those documents. You should read the Plan and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Law Department.

Long-Term Cash Award (Executives) Sept. 2007

**STANDARD TERMS AND CONDITIONS FOR
LONG-TERM CASH AWARD — EXECUTIVES**

1. Long-Term Cash Award Subject to 2004 Performance Incentive Plan

The Long-Term Cash Award (the “**Cash Award**”) referred to in the attached Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement – Executives (the “**Notice**”) is awarded under the Western Digital Corporation (the “**Corporation**”) Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The Cash Award is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Long-Term Cash Award — Executives (these “**Standard Terms**”), and the Plan. To the extent any information in the Notice or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, then the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The Notice and these Standard Terms, together, constitute the “**Agreement**” with respect to the Cash Award pursuant to Section 5.3 of the Plan. The holder of the Cash Award is referred to herein as the “**Participant**.” Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Performance Goals

The Compensation Committee of the Board of Directors of the Corporation (the “**Committee**”) shall set one or more objective performance goals for Participant for the Measurement Period, in accordance with Section 5.2 of the Plan (“**Performance Goals**”). Upon determination by the Committee of the Performance Goals, the Performance Goals for the Measurement Period shall be attached as Exhibit A hereto.

3. Determination and Payment of Cash Award Payment Amount

Within a reasonable period of time following the end of the Measurement Period, the Committee shall determine, in accordance with the Performance Goals and related criteria and methodology established by the Committee described on Exhibit A hereto, the extent to which the Performance Goals have been achieved and authorize the cash payment of an award, if any, to Participant (the “**Cash Award Payment Amount**”). The Cash Award Payment Amount shall equal the dollar amount of the Cash Award set forth on the Notice of Grant of Cash Performance Award (“**Target Cash Award**”) multiplied by a percentage that shall be determined by the Committee in accordance with the Performance Goals and related criteria and methodology described on Exhibit A hereto (the “**Cash Award Performance Percentage**”), subject to adjustment as described in this Agreement. Subject to Sections 5, 6 and 13 below, payment of the Cash Award Payment Amount shall be made to Participant or, in the event of Participant’s death, to Participant’s legal representative, as soon as practicable after the certification of awards by the Committee (but no later than seventy-four days following completion of the Measurement Period), net of amounts withheld in satisfaction of the requirements of Section 8(b) below. **THE CASH AWARD PERFORMANCE PERCENTAGE AND THE CASH AWARD PAYMENT AMOUNT ARE SUBJECT TO ADJUSTMENT (WHICH MAY REDUCTION) AS PROVIDED IN THIS AGREEMENT.**

4. Termination at Payment of Cash Award

Unless terminated earlier under Section 5 below, a Participant’s rights under this Agreement with respect to the Cash Award awarded under this Agreement shall terminate at the time any Cash Award Payment Amount is paid to Participant or at such time that the Cash Award is no longer eligible to become paid, as determined by the Administrator or the Committee.

5. Termination of Employment; Change in Control Events

(a) Termination of Employment. Subject to Section 7.2 or 7.3 of the Plan and subject to adjustment as provided in Section 6 hereof, if the Participant ceases to be employed by or to provide services to the Corporation and its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Cash Award and any right to receive a Cash Award Payment Amount shall terminate to the extent a Cash Award Payment Amount has not yet been determined by the Committee as described in Section 3, as of the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a pro-rata portion of the Cash Award Payment Amount shall be paid (equal to the Cash Award Payment Amount that the Participant would have been entitled to had he or she continued to be employed through the applicable payment date, multiplied by a fraction the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries prior to the Participant's death and the denominator of which is the total number of days in the Measurement Period) to the Participant's legal representative at the same time as Cash Award Payment Amounts are paid generally with respect to the Measurement Period. The Administrator shall be the sole judge, for purposes of the Cash Award, as to whether the Participant continues to render services the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

(b) Change in Control Events. Notwithstanding Section 5(a), upon the occurrence of a Change in Control Event (as defined in Section 7.3 of the Plan), subject to Section 6 below and Participant then being an Eligible Person (or having died during the Measurement Period while employed by or providing services to the Corporation or any of its Subsidiaries), the Cash Award Payment Amount, based on a Cash Award Performance Percentage of 100% (or such greater percentage as the Committee, in its sole discretion, may deem appropriate in the circumstances, and subject to pro-rata as provided in Section 5(a) in the event the Participant had died during the Measurement Period and prior to the Change in Control Event), multiplied by the Target Cash Award shall become payable hereunder to Participant. Such Cash Award Payment Amount (after giving effect to the foregoing sentence) shall be paid, net of amounts withheld in satisfaction of the requirements of Section 8(b) below, to Participant or, in the event of Participant's death, to Participant's legal representative, as soon as practicable following (and in all events no more than seventy-four (74) days after) the Change in Control Event; provided, however, that if the Participant has made a deferral election with respect to such payment pursuant to Section 13(a) that is then in effect, such payment shall be made in accordance with the terms of the Corporation's Amended and Restated Deferred Compensation Plan.

6. Adjustments; Performance-Based Compensation

(a) Adjustments. In determining the Cash Award Performance Percentage and the Cash Award Payment Amount with respect to the Measurement Period, the Committee may adjust the Performance Goals previously determined by the Committee to the extent permitted pursuant to Section 5.2.2 of the Plan.

(b) Reduction of Cash Award Payment Amount. Notwithstanding Section 3 or any other term of this Agreement, the Committee may in its sole and absolute discretion reduce the Cash Award Payment Amount, if the Committee determines that such reduction is necessary or advisable due to current business conditions or for any other reason, including the Committee's judgment that the Performance Goals have become an inappropriate measure of achievement, a change in the employment status, position or duties of the Participant, unsatisfactory performance of the Participant, or based on the Participant's services and contributions for the Measurement Period.

(c) Performance-Based Compensation. Cash Awards are intended to be Performance-Based Awards based on Business Criteria, as described in Section 5.2 of the Plan. Compensation attributable to the Agreement is intended to constitute qualified performance-based compensation under Section 162(m) of the Code and the regulations thereunder. This Agreement shall be construed and administered by the Committee in a manner consistent with this intent.

Long-Term Cash Award (Executives) Sept. 2007

7. Acknowledgment of Nature of Plan and Cash Awards

In accepting the Cash Award, Participant acknowledges that:

- (a) the Plan is established voluntarily by the Corporation, it is discretionary in nature and may be modified, amended, suspended or terminated by the Corporation at any time, as provided in the Plan;
- (b) the Award of this Cash Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Cash Awards, or benefits in lieu of Cash Awards even if Cash Awards have been awarded repeatedly in the past;
- (c) all decisions with respect to future awards, if any, will be at the sole discretion of the Corporation; and
- (d) Participant's participation in the Plan is voluntary.

8. Taxes

(a) Responsibility for Tax-Related Items. Regardless of any action the Corporation or Participant's actual employer takes with respect to any or all income tax (including federal, state and local taxes), social insurance, payroll tax or other tax-related withholding ("**Tax Related Items**"), Participant acknowledges that the ultimate liability for all Tax Related Items legally due by Participant is and remains Participant's responsibility and that the Corporation and/or the Participant's actual employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Cash Award, including the grant of the Cash Award, the determination of the Cash Award Payment Amount or the payment of the Cash Award Payment Amount; and (ii) do not commit to structure the terms of the grant or any aspect of the Cash Award to reduce or eliminate the Participant's liability for Tax Related Items.

(b) Withholding Taxes. The Corporation (or any of its Subsidiaries last employing the Participant) shall be entitled to withhold from any Cash Award Payment Amount an amount necessary to satisfy any withholding obligations of the Corporation or any Subsidiary with respect to such payment.

9. Nontransferability

Prior to the time that a Cash Award Payment Amount is paid to Participant, no Cash Award or right to receive a Cash Award Payment Amount, any interest therein, nor any amount payable in respect thereof, may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) subject to Section 5(a), transfers by will or the laws of descent and distribution.

10. No Right to Employment

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

11. Arbitration

Any controversy arising out of or relating to this Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Cash Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("**JAMS**"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of

Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Cash Award, the Participant consents to all of the terms and conditions of this Agreement (including, without limitation, this Section 11).

12. Governing Law

This Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

13. Deferrals; Construction

(a) To the extent permitted under the Corporation's Amended and Restated Deferred Compensation Plan, as amended from time to time, Participant may elect to defer receipt of any or all Cash Award Payment Amounts due hereunder. Such election shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan.

(b) This Agreement shall be construed and interpreted to comply with Section 409A of the Code and regulations or other guidance promulgated thereunder ("Section 409A"). The Corporation reserves the right to amend this Agreement to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of the Cash Award in light of Section 409A.

14. Severability

If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

15. Entire Agreement

This Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

Long-Term Cash Award (Executives) Sept. 2007

16. Section Headings

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Long-Term Cash Award (Executives) Sept. 2007

EXHIBIT A
LONG-TERM CASH AWARD — EXECUTIVES
Performance Goals

[Performance Goals shall be expressed in terms of one or more of the following corporate measures (or such other measures that may be defined as “Business Criteria” pursuant to the Plan): earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. Each such Performance Goal may be expressed on an absolute and/or relative basis, may employ comparisons with past performance of the Corporation (including one or more divisions) and/or the current or past performance of other companies, and in the case of earnings-based measures, may employ comparisons to capital, stockholders’ equity and shares outstanding.]

Long-Term Cash Award (Executives) Sept. 2007

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Long-Term Cash Award
and Long-Term Cash Award Agreement — Employees**

«fn» «mn» «ln»
«ad1»
«ad2»
«cty», «st» «z»

Award Number:
Plan:
ID:

«nbr»
2004 Performance Incentive Plan
«id»

Congratulations! Effective _____, 20____, you have been granted a Long-Term Cash Award (a “**Cash Award**”) of Western Digital Corporation. This Cash Award was granted under the 2004 Performance Incentive Plan (the “**Plan**”).

Target Cash Award: \$_____.

Measurement Period covered by grant: _____ to _____ (“Measurement Period”).

Your Cash Award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Long-Term Cash Award – Employees (the “**Standard Terms**”) and the Plan. By accepting the award, you are agreeing to the terms and provisions set forth in those documents. You should read the Plan and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Law Department.

Long-Term Cash Award (Employees) Sept. 2007

**STANDARD TERMS AND CONDITIONS FOR
LONG-TERM CASH AWARD — EMPLOYEES**

1. Long-Term Cash Award Subject to 2004 Performance Incentive Plan

The Long-Term Cash Award (the “**Cash Award**”) referred to in the attached Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement – Employees (the “**Notice**”) is awarded under the Western Digital Corporation (the “**Corporation**”) Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The Cash Award is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Long-Term Cash Award — Employees (these “**Standard Terms**”), and the Plan. To the extent any information in the Notice or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, then the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The Notice and these Standard Terms, together, constitute the “**Agreement**” with respect to the Cash Award pursuant to Section 5.3 of the Plan. The holder of the Cash Award is referred to herein as the “**Participant**.” Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Performance Goals

The Compensation Committee of the Board of Directors of the Corporation (the “**Committee**”) shall set one or more objective performance goals for Participant for the Measurement Period, in accordance with Section 5.2 of the Plan (“**Performance Goals**”). Upon determination by the Committee of the Performance Goals, the Performance Goals for the Measurement Period shall be attached as Exhibit A hereto.

3. Determination and Payment of Cash Award Payment Amount

Within a reasonable period of time following the end of the Measurement Period, the Committee shall determine, in accordance with the Performance Goals and related criteria and methodology established by the Committee described on Exhibit A hereto, the extent to which the Performance Goals have been achieved and authorize the cash payment of an award, if any, to Participant (the “**Cash Award Payment Amount**”). The Cash Award Payment Amount shall equal the dollar amount of the Cash Award set forth on the Notice of Grant of Cash Performance Award (“**Target Cash Award**”) multiplied by a percentage that shall be determined by the Committee in accordance with the Performance Goals and related criteria and methodology described on Exhibit A hereto (the “**Cash Award Performance Percentage**”), subject to adjustment as described in this Agreement. Subject to Sections 5, 6 and 13 below, payment of the Cash Award Payment Amount shall be made to Participant or, in the event of Participant’s death, to Participant’s legal representative, as soon as practicable after the certification of awards by the Committee (but no later than seventy-four days following completion of the Measurement Period), net of amounts withheld in satisfaction of the requirements of Section 8(b) below. **THE CASH AWARD PERFORMANCE PERCENTAGE AND THE CASH AWARD PAYMENT AMOUNT ARE SUBJECT TO ADJUSTMENT (WHICH MAY REDUCTION) AS PROVIDED IN THIS AGREEMENT.**

4. Termination at Payment of Cash Award

Unless terminated earlier under Section 5 below, a Participant’s rights under this Agreement with respect to the Cash Award awarded under this Agreement shall terminate at the time any Cash Award Payment Amount is paid to Participant or at such time that the Cash Award is no longer eligible to become paid, as determined by the Administrator or the Committee.

5. Termination of Employment; Change in Control Events

Subject to Section 7.2 or 7.3 of the Plan and subject to adjustment as provided in Section 6 hereof, if the Participant ceases to be employed by or to provide services to the Corporation and its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Cash Award and any right to receive a Cash Award Payment Amount shall terminate to the extent a Cash Award Payment Amount has not yet been determined by the Committee as described in Section 3, as of the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a pro-rata portion of the Cash Award Payment Amount shall be paid (equal to the Cash Award Payment Amount that the Participant would have been entitled to had he or she continued to be employed through the applicable payment date, multiplied by a fraction the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries prior to the Participant's death and the denominator of which is the total number of days in the Measurement Period) to the Participant's legal representative at the same time as Cash Award Payment Amounts are paid generally with respect to the Measurement Period. The Administrator shall be the sole judge, for purposes of the Cash Award, as to whether the Participant continues to render services the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6. Adjustments; Performance-Based Compensation

(a) Adjustments. In determining the Cash Award Performance Percentage and the Cash Award Payment Amount with respect to the Measurement Period, the Committee may adjust the Performance Goals previously determined by the Committee to the extent permitted pursuant to Section 5.2.2 of the Plan.

(b) Reduction of Cash Award Payment Amount. Notwithstanding Section 3 or any other term of this Agreement, the Committee may in its sole and absolute discretion reduce the Cash Award Payment Amount, if the Committee determines that such reduction is necessary or advisable due to current business conditions or for any other reason, including the Committee's judgment that the Performance Goals have become an inappropriate measure of achievement, a change in the employment status, position or duties of the Participant, unsatisfactory performance of the Participant, or based on the Participant's services and contributions for the Measurement Period.

(c) Performance-Based Compensation. Cash Awards are intended to be Performance-Based Awards based on Business Criteria, as described in Section 5.2 of the Plan. Compensation attributable to the Agreement is intended to constitute qualified performance-based compensation under Section 162(m) of the Code and the regulations thereunder. This Agreement shall be construed and administered by the Committee in a manner consistent with this intent.

7. Acknowledgment of Nature of Plan and Cash Awards

In accepting the Cash Award, Participant acknowledges that:

(a) the Plan is established voluntarily by the Corporation, it is discretionary in nature and may be modified, amended, suspended or terminated by the Corporation at any time, as provided in the Plan;

(b) the Award of this Cash Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Cash Awards, or benefits in lieu of Cash Awards even if Cash Awards have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Corporation; and

(d) Participant's participation in the Plan is voluntary.

Long-Term Cash Award (Employees) Sept. 2007

8. Taxes

(a) Responsibility for Tax-Related Items. Regardless of any action the Corporation or Participant's actual employer takes with respect to any or all income tax (including federal, state and local taxes), social insurance, payroll tax or other tax-related withholding ("**Tax Related Items**"), Participant acknowledges that the ultimate liability for all Tax Related Items legally due by Participant is and remains Participant's responsibility and that the Corporation and/or the Participant's actual employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Cash Award, including the grant of the Cash Award, the determination of the Cash Award Payment Amount or the payment of the Cash Award Payment Amount; and (ii) do not commit to structure the terms of the grant or any aspect of the Cash Award to reduce or eliminate the Participant's liability for Tax Related Items.

(b) Withholding Taxes. The Corporation (or any of its Subsidiaries last employing the Participant) shall be entitled to withhold from any Cash Award Payment Amount an amount necessary to satisfy any withholding obligations of the Corporation or any Subsidiary with respect to such payment.

9. Nontransferability

Prior to the time that a Cash Award Payment Amount is paid to Participant, no Cash Award or right to receive a Cash Award Payment Amount, any interest therein, nor any amount payable in respect thereof, may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) subject to Section 5, transfers by will or the laws of descent and distribution.

10. No Right to Employment

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

11. Arbitration

Any controversy arising out of or relating to this Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Cash Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("**JAMS**"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By

accepting the Cash Award, the Participant consents to all of the terms and conditions of this Agreement (including, without limitation, this Section 11).

12. Governing Law

This Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

13. Deferrals; Construction

(a) To the extent permitted under the Corporation's Amended and Restated Deferred Compensation Plan, as amended from time to time, Participant may elect to defer receipt of any or all Cash Award Payment Amounts due hereunder. Such election shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan.

(b) This Agreement shall be construed and interpreted to comply with Section 409A of the Code and regulations or other guidance promulgated thereunder ("Section 409A"). The Corporation reserves the right to amend this Agreement to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of the Cash Award in light of Section 409A.

14. Severability

If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

15. Entire Agreement

This Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

16. Section Headings

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Long-Term Cash Award (Employees) Sept. 2007

EXHIBIT A

LONG-TERM CASH AWARD — EMPLOYEES
Performance Goals

[Performance Goals shall be expressed in terms of one or more of the following corporate measures (or such other measures that may be defined as “Business Criteria” pursuant to the Plan): earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. Each such Performance Goal may be expressed on an absolute and/or relative basis, may employ comparisons with past performance of the Corporation (including one or more divisions) and/or the current or past performance of other companies, and in the case of earnings-based measures, may employ comparisons to capital, stockholders’ equity and shares outstanding.]

Long-Term Cash Award (Employees) Sept. 2007

**WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED 2004 PERFORMANCE INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR OPTION GRANT PROGRAM**

1. Establishment; Purpose. This Non-Employee Director Option Grant Program (this “**Program**”) is adopted under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The purpose of this Program is to promote the success of the Corporation and the interests of its stockholders by providing members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries (“**Non-Employee Directors**”) an opportunity to acquire an ownership interest in the Corporation and more closely aligning the interests of Non-Employee Directors and stockholders. Except as otherwise expressly provided herein, the provisions of the Plan shall govern all awards made pursuant to this Program. Capitalized terms are defined in the Plan if not defined herein.

2. Participation. Awards under this Program shall be made only to Non-Employee Directors, shall be evidenced by award agreements substantially in the form of Exhibit 1 hereto and shall be further subject to such other terms and conditions set forth therein.

3. Option Grants.

3.1 Initial Award for New Non-Employee Directors.

3.1.1 Upon or as soon as reasonably practicable after first being appointed or elected to the Board and subject to approval by the Board or the Administrator, a Non-Employee Director who has not previously served on the Board shall be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant equal to \$300,000 (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option); provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date such Non-Employee Director is first appointed or elected to the Board.

3.1.2 Each member of the Board who was previously an employee of the Corporation or any of its Subsidiaries who first becomes a Non-Employee Director by virtue of retiring or otherwise ceasing to be employed by the Corporation or any of its Subsidiaries shall, upon or as soon as reasonably practicable after the date that he or she is first a Non-Employee Director, be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option) of (i) \$100,000, divided by (ii) 365, multiplied by (iii) the number of days from

the date such person is first a Non-Employee Director to the anticipated date of the Corporation's next annual meeting of stockholders; provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date such person first becomes a Non-Employee Director.

3.2 Subsequent Awards. Immediately following the Corporation's regular annual meeting of stockholders in each year during the term of the Plan commencing in 2005 and subject to approval by the Board or the Administrator, each Non-Employee Director then in office shall be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant equal to \$100,000 (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option); provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date of the annual meeting of stockholders. An individual who was previously a member of the Board, who then ceased to be a member of the Board for any reason, and who then again becomes a Non-Employee Director shall thereupon again become eligible to be granted stock options under this Section 3.2.

3.3 Option Price. The purchase price per share of the Common Stock covered by each option granted pursuant to this Section 3 shall be 100 percent of the Fair Market Value of a share of Common Stock on the date of grant of the option (the "**Award Date**"). The exercise price of any option granted under this Section 3 shall be paid in full at the time of each purchase in cash or by check, in shares of Common Stock valued at their fair market value on the date of exercise of the option, or partly in such shares and partly in cash, or in any other manner authorized by the Administrator pursuant to Section 5.5 of the Plan; provided that any shares used in payment shall have been owned by the Non-Employee Director for at least six months prior to the date of exercise.

3.4 Transfer Restrictions. Options granted pursuant to this Section 3 shall be subject to the transfer restrictions set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not approved any transfer exceptions with respect to the options in accordance with Section 5.7.2 of the Plan.

4. Option Period and Exercisability. Each option granted under Section 3 above and all rights or obligations under this Program with respect to a particular option shall expire ten years after the date of grant of such option and shall be subject to earlier termination as provided below. Subject to Sections 5, 6 and 7 hereof, each option granted under Section 3 shall become exercisable as to 25% of the total number of shares subject thereto on the first anniversary of the

date of grant of the option and as to an additional 6.25% of the total number of shares subject thereto at the end of each of the next 12 three-month periods thereafter.

5. Termination of Directorship. Subject to the maximum ten-year term of the option and subject to earlier termination pursuant to Section 7 below, if a Non-Employee Director ceases to be a member of the Board for any reason, the following rules shall apply with respect to any option granted to the Non-Employee Director pursuant to Section 3 above (the last day that the Director is a member of the Board is, except as otherwise provided below, referred to as the Director's "Severance Date"):

- other than as expressly provided below in this Section 5, (a) the Non-Employee Director will have until the date that is one (1) year after his or her Severance Date to exercise such option (or portion thereof) to the extent that it was vested on the Severance Date, (b) such option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) such option, to the extent exercisable for the one-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the one-year period;
- if the Non-Employee Director ceases to be a member of the Board due to his or her Retirement (as defined below) and the Non-Employee Director has served as a member of the Board of Directors for at least twelve (12) continuous months following the grant date of such option, (a) the Non-Employee Director will have until the date that is three (3) years after his or her Severance Date to exercise such option, (b) such option, to the extent not otherwise vested on the Severance Date, shall automatically become fully vested as of the Severance Date, and (c) such option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period;

provided, however, that if the Board or the Administrator determines that any such Non-Employee Director who has Retired renders services as an employee, director, consultant, contractor or otherwise to a competitor of the Corporation or one of its Subsidiaries at any time during such three-year period, then any such option shall immediately terminate to the extent not exercised as of the date the Board or the Administrator makes such determination. In addition, in such event the Corporation shall have the right to recover any profits realized by such Retired Non-Employee Director as a result of any exercise of such option during the six-month period prior to the date such Non-Employee Director commenced providing such services to a competitor.

For purposes of this Section 5, the term "**Retirement**" (which term shall include "Retired") shall mean the cessation of a director's services as a member of the Board due to his or her voluntary resignation at any time after such director has served as a member of the Board for at least forty-eight (48) months.

Notwithstanding any other provision of this Section 5, if a Non-Employee Director ceases to be a member of the Board (regardless of the reason) but, immediately thereafter, is

employed by the Corporation or one of its Subsidiaries, such director's Severance Date shall not be the date the director ceases to be a member of the Board but instead shall be the last day that the director is either or both (1) a member of the Board and/or (2) employed by the Corporation or a Subsidiary.

6. Adjustments. Options granted under this Program shall be subject to adjustment as provided in Section 7.1 of the Plan, but only to the extent that such adjustment is consistent with adjustments to options held by persons other than executive officers or directors of the Corporation (to the extent that persons other than executive officers or directors of the Corporation then hold options). The grant levels reflected in Section 3 above shall be automatically adjusted upon the record date for any stock split, reverse stock split, or stock dividend to give effect to such change in capitalization unless otherwise provided by the Board or the Administrator in the circumstances, and may be adjusted in the discretion of the Board or the Administrator in any other circumstances contemplated by Section 7.1.

7. Acceleration and Possible Early Termination. If a Change in Control Event (as such term is defined in the Plan) occurs and in connection with such Change in Control Event a Non-Employee Director ceases to be a member of the Board, each option granted under Section 3 above to such Non-Employee Director, to the extent such option is then outstanding, shall become immediately exercisable and vested in full. For purposes of this Section 7, but without limitation, a director will be deemed to have ceased to be a member of the Board in connection with a Change in Control Event if such director (a) is removed by or resigns upon the request of any Person exercising practical voting control over the Corporation following such Change in Control Event or a person acting upon authority or at the instruction of such Person, or (b) is willing or able to continue as a member of the Board but is not re-elected to or retained as a member of the Board by the Corporation's stockholders at the stockholder vote or consent action for the election of directors that precedes and is taken in connection with, or next follows, such Change in Control Event.

Each option granted under this Program shall be subject to adjustment and termination pursuant to Section 7 of the Plan.

8. Maximum Number of Shares; Amendment; Administration. If option grants otherwise required pursuant to this Program would otherwise exceed any applicable share limit under Section 4.2 of the Plan, such grants shall be made pro-rata to directors entitled to such grants. The Board or the Administrator may from time to time amend this Program without stockholder approval; provided that no such amendment shall materially and adversely affect the rights of a Non-Employee Director as to an option granted under this Program before the adoption of such amendment. This Program does not limit the authority of the Board or the Administrator to make other, discretionary award grants to Non-Employee Directors pursuant to the Plan. The Plan Administrator's power and authority to construe and interpret the Plan and awards thereunder pursuant to Section 3.1 of the Plan shall extend to this Program and awards granted hereunder. As provided in Section 3.2 of the Plan, any action taken by, or inaction of, the Administrator relating or pursuant to this Program and within its authority or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

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As amended (Sections 3.1 and 3.2) and restated November 17, 2005

As amended (Section 5) November 9, 2006

As amended (Sections 3.1 and 3.2) August 22, 2007



Western Digital Corporation 20511 Lake Forest Drive
 Lake Forest, California 92630 Telephone 949-672-7000

**Notice Of Grant Of Stock Option
 and Option Agreement — Non-Employee Directors**

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Western Digital Corporation (the “Corporation”) has granted to you (the “Participant”), effective on the Date of Grant set forth below, a nonqualified option to purchase shares of the Corporation’s Common Stock (the “Option”) as follows:

Grant Number	<nbr>
Date of Grant	<optdt>
Option Price per Share ¹	\$<optprc>
Number of Shares Granted ¹	<shgtd>
Expiration Date ²	

1. Option Subject to Amended and Restated 2004 Performance Incentive Plan. The Option was granted pursuant to the Non-Employee Director Option Grant Program (the “Program”), adopted under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “Plan”). The Option is subject to the terms and conditions of this Notice, the Program and the Plan. By accepting the Option, you are agreeing to the terms of the Option as set forth in these documents. A copy of each of these documents has been provided to you. If you need another copy of any of these documents, or if you would like to confirm that you have the most recent version, you may obtain another copy in the Company Library on the E*TRADE Stock Plans web site. The documents are also available on the Western Digital Intranet site under Legal.

You should read the Program, the Plan, the Prospectus for the Plan and this Notice. The Program and the Plan are each incorporated into (made a part of) this Notice by this reference. To the extent any information in this Notice, the Prospectus for the Plan, or other information provided by the Corporation conflicts with the Program and/or the Plan, the Program or the Plan, as applicable, shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

You do not have to accept the Option. If you do not agree to the terms of the Option, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

¹ The number of shares subject to the Option and the per-share exercise price of the Option are subject to adjustment under Section 6 of the Program and Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).

² The Option is subject to early termination under Sections 5 and 7 of the Program.

Unless otherwise expressly provided in other sections of this Notice, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the grant date of the Option.

2. Option Agreement. This Notice constitutes the Option Agreement with respect to the Option pursuant to Section 5.3 of the Plan.

3. Type of Stock Option. The Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

4. Vesting. Subject to earlier termination in accordance with Section 5, the Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth in this Notice and Section 4 of the Program. The Option may be exercised only to the extent it is vested and exercisable. To the extent that the Option is vested and exercisable, the Participant has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option as provided in Section 5. Fractional share interests shall be disregarded, but may be cumulated.

The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Service for only a portion of the vesting period with respect to a vesting installment, even if services are provided for a substantial portion of that period, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided under Section 5 of the Program or under the Plan.

5. Expiration of Option. The Option shall expire and the Participant shall have no further rights with respect thereto upon the earliest to occur of (a) the termination of the Option in connection with a termination of the director's services as provided in Section 5 of the Program, (b) the termination of the Option as provided in Section 7.4 of the Plan, or (c) the Expiration Date set forth in this Notice. The Option may not be exercised at any time after a termination or expiration of the Option.

6. Exercise of Option. The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
 - payment in full for the purchase price (the per-share exercise price of the Option multiplied by the number of shares to be purchased) in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Participant, valued at their fair market value on the exercise date, provided, however, that any shares initially acquired upon exercise of a stock option or otherwise from the Corporation must have been owned by the Participant for at least six (6) months before the date of such exercise; and
-

- any written statements or agreements required by the Administrator pursuant to Section 8.1 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by notice and third party payment in such manner as may be authorized by the Administrator.

7. Nontransferability. The Option and any other rights of the Participant under this Option Agreement, the Program or the Plan are nontransferable and exercisable only by the Participant, except as set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not authorized any transfer exceptions as contemplated by Section 5.7.2 of the Plan.

8. No Service Commitment. Nothing contained in this Option Agreement, the Program or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, confers upon the Participant any right to remain in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

9. Rights as a Stockholder. Neither the Participant nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest or privilege in or to any shares of Common Stock subject to the Option except as to such shares, if any, as shall have been actually issued to such person and recorded in such person's name following the exercise of the Option or any portion thereof.

10. Notices. Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer a member of the Board of Directors, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 10.

11. Arbitration. Any controversy arising out of or relating to this Option Agreement, the Program and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy or claim arising out of or related to the Option or the Participant's employment, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Option Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on

the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Option, the Participant consents to all of the terms and conditions of this Option Agreement (including, without limitation, this Section 11).

12. Governing Law. This Option Agreement shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

13. Severability. If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Option Agreement, the Program or the Plan is in violation of any statute or public policy, then only the portions of this Option Agreement, the Program or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Option Agreement, the Program and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Option Agreement, the Program and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

14. Entire Agreement. This Option Agreement, the Program and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan, the Program and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

15. Section Headings. The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED 2004 PERFORMANCE INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT GRANT PROGRAM

1. Establishment. The Corporation maintains the Western Digital Corporation Non-Employee Directors Restricted Stock Unit Plan, which plan is hereby amended and restated in its entirety effective as of November 17, 2005 (the “**Effective Date**”) as set forth herein and is hereby renamed the Non-Employee Director Restricted Stock Unit Grant Program (the “**Program**”). This amendment and restatement of the Program is effective as to grants on and after the Effective Date; awards granted under the Program prior to the Effective Date are governed by the applicable terms of the Program as in effect on the date of grant of the award. The Program has been restated as an Appendix to, and any shares of Common Stock issued with respect to awards granted under the Program on and after the Effective Date shall be charged against the applicable share limits of, the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). Except as otherwise expressly provided herein, the provisions of the Plan shall govern all awards made pursuant to the Program. Capitalized terms are defined in the Plan if not defined herein.

2. Purpose. The purpose of the Program is to promote the success of the Corporation and the interests of its stockholders by providing members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries (“**Non-Employee Directors**”) an opportunity to acquire an ownership interest in the Corporation and more closely aligning the interests of Non-Employee Directors and stockholders.

3. Participation. An award of Stock Units (a “**Stock Unit Award**”) under the Program shall be made only to Non-Employee Directors, shall be evidenced by a Notice of Award of Stock Units substantially in the form attached as Exhibit 1 hereto and shall be further subject to such other terms and conditions set forth therein. As used in the Program, the term “**Stock Unit**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Program. Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to a Non-Employee Director if Stock Units held by such Non-Employee Director vest pursuant to Section 6 or Section 8. Stock Units shall not be treated as property or as a trust fund of any kind. Stock Units granted to a Non-Employee Director pursuant to the Program shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Non-Employee Director (a “**Program Account**”).

4. Annual Stock Unit Awards.

4.1 Annual Awards. On each January 1 during the term of the Plan commencing on January 1, 2006, each Non-Employee Director then in office shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number (rounded down to the nearest whole number) of Stock Units equal to (i) \$100,000, divided by (ii) the Fair Market Value of a share of Common Stock on the applicable January 1 (subject to adjustment as provided in Section 7.1 of the Plan).

An individual who was previously a member of the Board, who then ceased to be a member of the Board for any reason, and who then again becomes a Non-Employee Director shall thereupon again become eligible to be granted Stock Units under this Section 4.1.

4.2 Initial Award for New Non-Employee Directors. Each Non-Employee Director, upon first becoming a Non-Employee Director (including, without limitation, by virtue of being appointed or elected to the Board or, with respect to any member of the Board who is employed by the Corporation or any of its Subsidiaries, by virtue of retiring or otherwise ceasing to be employed by the Corporation or any of its Subsidiaries), shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number of Stock Units equal to (i) the number of Stock Units in the Annual Award immediately preceding the date such person first becomes a Non-Employee Director, divided by (ii) 365, multiplied by (iii) the number of days from the date such person first becomes a Non-Employee Director to the immediately following January 1.

4.3 Transfer Restrictions. Stock Units granted pursuant to this Section 4 shall be subject to the transfer restrictions set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not approved any transfer exceptions with respect to Stock Units granted pursuant to the Program in accordance with Section 5.7.2 of the Plan.

5. Dividend and Voting Rights.

5.1 Limitation of Rights Associated with Stock Units. A Non-Employee Director shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5.2 with respect to dividend equivalent rights) and no voting rights, with respect to Stock Units granted pursuant to the Program and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Non-Employee Director. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5.2 Dividend Equivalent Rights. As of any date that the Corporation pays a dividend (other than in shares of Common Stock) upon issued and outstanding Common Stock, or makes a distribution (other than in shares of Common Stock) with respect thereto, a Non-Employee Director's Program Account shall be credited with an additional number (rounded down to the nearest whole number) of Stock Units equal to (i) the "fair value" of any dividend (or other distribution) with respect to one share of Common Stock, multiplied by (ii) the number of unvested Stock Units credited to the Non-Employee Director's Program Account immediately prior to such dividend or distribution, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend or distribution. In the case of a cash dividend or distribution, the "fair value" thereof shall be the amount of such cash, and, in the case of any other dividend or distribution (other than in shares of Common Stock), the "fair value" thereof shall be such amount as shall be determined in good faith by the Administrator. Stock Units credited pursuant to the foregoing provisions of this Section 5.2 shall be subject to the

same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. No adjustment shall be made pursuant to Section 7.1 of the Plan as to Stock Units granted pursuant to the Program in connection with any dividend (other than in shares of Common Stock) or distribution (other than in shares of Common Stock) for which dividend equivalents are credited pursuant to the foregoing provisions of this Section 5.2. Stock Units granted pursuant to the Program shall otherwise be subject to adjustment pursuant to Section 7.1 of the Plan (for example, and without limitation, in connection with a split or reverse split of the outstanding Common Stock).

6. Vesting. Subject to Section 8 hereof and Section 7 of the Plan, a Stock Unit Award granted to a Non-Employee Director pursuant to the Program (whether pursuant to Section 4 or Section 5.2) shall vest and become payable as to 100% of the total number of Stock Units subject thereto on the third anniversary of the date of grant of the Stock Unit Award.

7. Continuation of Services. The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of a Stock Unit Award and the rights and benefits under the Program. Partial service, even if substantial, during any vesting period will not entitle a Non-Employee Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 8 below. Nothing contained in the Program constitutes a continued service commitment by the Corporation, confers upon a Non-Employee Director any right to remain in service to the Corporation, interferes with the right of the Corporation at any time to terminate such service, or affects the right of the Corporation to increase or decrease a Non-Employee Director's other compensation.

8. Termination of Directorship. Subject to earlier termination pursuant to Section 7 of the Plan, if a Non-Employee Director ceases to be a member of the Board for any reason, the following rules shall apply with respect to any Stock Units granted to the Non-Employee Director pursuant to Section 4 above (the last day that the Non-Employee Director is a member of the Board is, except as otherwise provided below, referred to as the Non-Employee Director's "**Severance Date**"):

- other than as expressly provided below in this Section 8, (a) one-third (1/3) of the number of Stock Units granted to the Non-Employee Director pursuant to the Program within the period commencing twenty-four (24) months prior to, and ending twelve (12) months prior to, the Non-Employee Director's Severance Date shall immediately vest and become payable; (b) two-thirds (2/3) of the number of Stock Units granted to the Non-Employee Director pursuant to the Program within the period commencing thirty-six (36) months prior to, and ending twenty-four (24) months prior to, the Non-Employee Director's Severance Date shall immediately vest and become payable; and (c) all Stock Units granted to a Non-Employee Director pursuant to the Program that have not vested as of, or do not vest upon, the Non-Employee Director's Severance Date, shall immediately terminate without payment therefor;
- if the Non-Employee Director ceases to be a member of the Board due to his or her death or Disability (as defined below), all Stock Units granted to the Non-

Employee Director pursuant to the Program shall immediately vest and become payable;

- if the Non-Employee Director ceases to be a member of the Board due to his or her Retirement (as defined below), all Stock Units subject to a Stock Unit Award granted to the Non-Employee Director pursuant to the Program shall immediately vest and become payable, provided that the Non-Employee Director has served as a member of the Board for at least twelve (12) continuous months following the grant date of such Stock Unit Award;
- if the Non-Employee Director ceases to be a member of the Board due to his or her Removal, all then-unvested Stock Units granted to the Non-Employee Director pursuant to the Program shall immediately terminate without payment therefor.

For purposes of this Section 8, the term “**Disability**” shall mean a period of disability during which a Non-Employee Director qualified for permanent disability benefits under the Corporation’s long-term disability plan, or, if the Non-Employee Director does not participate in such a plan, a period of disability during which the Non-Employee Director would have qualified for permanent disability benefits under such a plan had the Non-Employee Director been a participant in such a plan, as determined in the sole discretion of the Administrator. If the Corporation does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Administrator in its sole discretion. For purposes of this Section 8, the term “**Retirement**” shall mean the cessation of a director’s services as a member of the Board due to his or her voluntary resignation at any time after such director has served as a member of the Board for at least forty-eight (48) months. For purposes of this Section 8, the term “**Removal**” shall mean the removal of a Non-Employee Director from the Board, with or without cause, in accordance with the Corporation’s Certificate of Incorporation, Bylaws or the Delaware General Corporation Law.

Notwithstanding any other provision of this Section 8, if a Non-Employee Director ceases to be a member of the Board (regardless of the reason) but, immediately thereafter, is employed by the Corporation or one of its Subsidiaries, such director’s Severance Date shall not be the date the director ceases to be a member of the Board but instead shall be the last day that the director is either or both (1) a member of the Board and/or (2) employed by the Corporation or a Subsidiary.

9. Timing and Manner of Payment of Stock Units. Except as provided in Section 10 below, on or within fifteen (15) business days following the vesting of any Stock Units granted to a Non-Employee Director pursuant to the Program (whether pursuant to Section 6 or Section 8 hereof or Section 7 of the Plan), the Corporation shall deliver to the Non-Employee Director a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date, subject to adjustment as provided in Section 7 of the Plan; provided, however, that, to the extent permitted by the Corporation’s Amended and Restated Deferred Compensation Plan, as it may be amended from time to time (the “**Deferred Compensation Plan**”), a Non-Employee Director may elect to

defer receipt of any or all shares of Common Stock payable with respect to Stock Units that vest pursuant to the Program. Such elections shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan. The Corporation's obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Non-Employee Director (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) deliver to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. A Non-Employee Director shall have no further rights with respect to any Stock Units that are paid or that are terminated pursuant to Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Non-Employee Director's Program Account upon the date of such payment or termination.

10. Change in Control Events. A Stock Unit Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan; provided, however, that, notwithstanding anything to the contrary in the Program or the Plan, if the event giving rise to such accelerated vesting is not also a "change in the ownership or effective control" of the Corporation for purposes of Section 409A of the Code, then payment with respect to such vested Stock Unit Award shall not be made until such Stock Unit Award would have become vested and payable without regard to this Section 10 or Section 7 of the Plan.

11. Plan Provisions; Maximum Number of Shares; Amendment; Administration. Stock Units granted under the Program shall otherwise be subject to the terms of the Plan (including, without limitation, the provisions of Section 7 of the Plan). If Stock Unit Awards otherwise required pursuant to the Program would otherwise exceed any applicable share limit under Section 4.2 of the Plan, such grants shall be made pro-rata to Non-Employee Directors entitled to such grants. The Board may from time to time amend the Program without stockholder approval; provided that no such amendment shall materially and adversely affect the rights of a Non-Employee Director as to a Stock Unit Award granted under the Program before the adoption of such amendment. The Board may amend, modify, suspend or terminate outstanding Stock Unit Awards; provided, however, that outstanding Stock Unit Awards shall not be amended, modified, suspended or terminated so as to impair any rights of the recipient of the award without the consent of such recipient. If any such amendment or modification to an outstanding Stock Unit Award has the result of accelerating the vesting of such award, then any election that had been made to defer receipt of payment with respect to any or all of the Stock Units subject to the award pursuant to the Deferred Compensation Plan shall be disregarded. The Program does not limit the Board's authority to make other, discretionary award grants to Non-Employee Directors pursuant to the Plan. The Plan Administrator's power and authority to construe and interpret the Plan and awards thereunder pursuant to Section 3.1 of the Plan shall extend to the Program and awards granted hereunder. As provided in Section 3.2 of the Plan, any action taken by, or inaction of, the Administrator relating or pursuant to the Program and within its authority or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

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As amended (Section 8) November 9, 2006

Western Digital Corporation
Summary of Compensation Arrangements
for
Named Executive Officers and Directors

NAMED EXECUTIVE OFFICERS

Base Salaries. The current annual base salaries for the current executive officers of Western Digital Corporation (the “Company”) who were named in the Summary Compensation Table in the Company’s Proxy Statement that was filed with the Securities and Exchange Commission in connection with the Company’s 2007 Annual Meeting of Stockholders (the “Named Executive Officers”) are as follows:

Named Executive Officer	Title	Current Base Salary
John F. Coyne	President and Chief Executive Officer	\$800,000
Timothy M. Leyden	Executive Vice President and Chief Financial Officer	\$450,000
Raymond M. Bukaty	Senior Vice President, Administration, General Counsel and Secretary	\$400,000
Hossein Moghadam	Senior Vice President, Chief Technology Officer	\$400,000

Semi-Annual Bonuses. Under the Company’s Incentive Compensation Plan (the “ICP”), the Named Executive Officers are also eligible to receive semi-annual cash bonus awards that are determined based on the Company’s achievement of performance goals pre-established by the Compensation Committee of the Company’s Board of Directors as well as other discretionary factors. The ICP, including the performance goals established by the Compensation Committee for the first half of fiscal 2008, are further described in the Company’s current report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2007, which is incorporated herein by reference. The target bonus percentages for the Named Executive Officers under the ICP currently range from 75% to 125% of each Named Executive Officer’s semi-annual base salary.

Additional Compensation. The Named Executive Officers are also entitled to participate in various Company plans, and are subject to other written agreements, in each case as set forth in exhibits to the Company’s filings with the Securities and Exchange Commission. In addition, the Named Executive Officers may be eligible to receive perquisites and other personal benefits as disclosed in the Company’s Proxy Statement that was filed with the Securities and Exchange Commission in connection with the Company’s 2007 Annual Meeting of Stockholders.

DIRECTORS

Annual Retainer and Committee Retainer Fees. The following table sets forth the current annual retainer and committee membership fees payable to each of the Company’s non-

employee directors:

Type of Fee	Retainer Fees (Effective After January 1, 2007)
Annual Retainer	\$ 75,000
Lead Independent Director Retainer	\$ 20,000
Non-Executive Chairman of Board Retainer	\$100,000
Additional Committee Retainers	
• Audit Committee	\$ 10,000
• Compensation Committee	\$ 5,000
• Governance Committee	\$ 2,500
Additional Committee Chairman Retainers	
• Audit Committee	\$ 15,000
• Compensation Committee	\$ 10,000
• Governance Committee	\$ 7,500

The retainer fee to the Company's lead independent director referred to above is paid only if the Chairman of the Board is an employee of the Company. The annual retainer fees are generally paid on January 1 of each year, except that the retainer to the Chairman of the Board or to the lead independent director is paid in equal installments at the beginning of each calendar quarter.

The Company also reimburses all non-employee directors for reasonable out-of-pocket expenses incurred to attend each Board of Directors or committee meeting; however, since November 2005, non-employee directors no longer receive a separate fee for each Board of Directors or committee meeting they attend. Mr. Coyne, who is an employee of the Company, does not receive any compensation for his service on the Board or any Board committee.

Additional Director Compensation. The Company's non-employee directors are also entitled to participate in various other Company plans as set forth in exhibits to the Company's filings with the Securities and Exchange Commission.



**Lease between
Sobrato Development Companies #871 and Komag Incorporated**

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1. PARTIES: THIS LEASE, is entered into on this 24th day of May, 1996 (“Execution Date”), between Sobrato Development Companies #871, a California Limited Partnership, whose address is 10600 North De Anza Boulevard, Suite 200, Cupertino, CA 95014 and Komag Incorporated, a Delaware corporation, whose address is 275 S. Hillview Drive, Milpitas, CA 95035, hereinafter called respectively Landlord and Tenant.

2. PREMISES: Landlord hereby leases to Tenant, and Tenant hires from Landlord those certain Premises with the appurtenances, situated in the City of San Jose, County of Santa Clara, State of California, and more particularly described as follows, to-wit:

A 12.6 acre parcel (“Parcel”) on the north side of Automation Parkway, San Jose, California, including all appurtenances and buildings now or during the Term located thereon. Pursuant to the terms of this Lease, Landlord is obligated to construct a single story building of approximately 188,303 rentable square feet (“Building”), a parking lot consisting of a minimum of 544 parking spaces expandable to approximately 656 spaces described as Building 10 on Exhibit “A” attached hereto. Landlord represents and warrants that Landlord is the fee simple owner of the Premises. Prior to the Commencement Date, Landlord shall use its best efforts to record a parcel map to subdivide the Parcel into two parcels, one for the Premises and the balance for a second building to be constructed for Tenant pursuant to that certain lease between the parties of even date herewith.

3. USE: Tenant shall use the Premises only for the following purposes and shall not change the use of the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed: Office research, development, testing, manufacturing, ancillary warehouse, and other legal uses. Landlord makes no representation or warranty that any specific use of the Premises desired by Tenant is permitted pursuant to any Laws. Landlord represents and warrants to tenant that, as of the Commencement Date, (i) the premises are in compliance with all municipal, county, state and federal statutes, laws, ordinances, including zoning ordinances, and regulations governing and relating to the Building Shell; (ii) there shall exist no patent or, to the best of Landlord’s knowledge, latent defect in the Premises; and (iii) the Premises shall be in good condition and repair and fit for Tenant’s particular purposes. Landlord represents and warrants to Tenant that, as of the Commencement Date, the land is zoned industrial (“I”).

4. TERM AND RENTAL: The term ("Lease Term") shall be for one hundred twenty (120) months, commencing on the date on which the Building Shell and Tenant Improvements are Substantially Complete as defined in Article 7.H below ("Commencement Date"), and ending one hundred twenty (120) months thereafter, ("Expiration Date"). In addition to all other sums payable by Tenant under this Lease, Tenant shall pay as base monthly rent ("Base Monthly Rent") below for the Premises in an amount determined pursuant to Exhibit "B" attached hereto. Base Monthly Rent shall increase at the end of the forty-second and eighty fourth month of the Lease Term by the product of the Base Monthly Rent payable for the preceding month and one and 147/1000 (**1.147**). The parties agree to enter into an amendment to this Lease setting forth the exact amount of the Base Monthly Rent payable during the Lease Term within fourteen (14) days following determination by Landlord.

Base Monthly Rent shall be due on or before the first day of each calendar month during Lease Term. All sums payable by Tenant under this Lease shall be paid in lawful money of the United States of America, without offset or deduction, and shall be paid to Landlord at the address specified in Article 1 of this Lease or at such place or places as may be designated from time to time by Landlord. Base Monthly Rent for any period less than a calendar month shall be a pro rata portion of the monthly installment.

A. Adjustment for Variance in Building Square Footage: In the event the square footage of the Building is other than 188,303 determined by measurement after completion of construction, within thirty (30) days after the Commencement Date, Landlord and Tenant shall execute an amendment to the Lease setting forth the actual rentable square feet of the Building, which calculation shall be consistent with the BOMA standard for Industrial Buildings (i.e. outside of outside wall to outside of outside wall without deduction).

5. SECURITY DEPOSIT: None required.

6. LATE CHARGES: Tenant hereby acknowledges that late payment by Tenant to Landlord of Base Monthly Rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, administrative, processing, accounting charges, and late charges, which may be imposed on Landlord by the terms of any contract, revolving credit, mortgage or trust deed covering the Premises. Accordingly, if any installment of Base Monthly Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after Tenant's receipt of written notice from Landlord that such amount is delinquent, Tenant shall pay to Landlord a late charge equal to five (5%) percent of such overdue amount which late charge shall be due and payable with the payment then delinquent. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment

by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

IT IS FURTHER MUTUALLY AGREED BETWEEN THE PARTIES AS FOLLOWS:

7. CONSTRUCTION AND POSSESSION:

A. Building Shell Construction. Landlord shall cause the shell of the Building ("Building Shell") to be constructed by independent contractor to be employed by and under the supervision of Landlord, in accordance with the building shell plans prepared by Comprehensive Architectural Services ("Tenant's Architect") and approved by Landlord and Tenant and guideline specifications, which are attached hereto as Exhibit "C" and are incorporated herein by this reference ("Shell Plans and Specifications"). Landlord shall construct the Building Shell in accordance with all applicable municipal, local, state and federal laws, statutes, rules, regulations and ordinances. Landlord shall pay for all costs and expenses associated with the construction of the Building Shell up to a maximum amount of Six Million Six Hundred Thousand and No/100 Dollars (\$6,600,000.00) ("Building Shell Allowance"). The Building Shell shall include all items customarily included within the definition of a speculative "building shell," including without limitation, those items set forth in the Building Shell Definition, attached hereto as Exhibit "D", and incorporated herein by this reference. Landlord shall provide Tenant half-size vellum as-built drawings of the Building Shell within thirty (30) days following completion of construction thereof.

B. Tenant Improvement Plans. Tenant, at Tenant's sole cost and expense, has also hired Tenant's Architect, to prepare plans and outline specifications. ("Tenant Improvement Plans and Specifications") which are attached hereto as Exhibit "E" with respect to the construction of improvements to the interior premises ("Tenant Improvements"). The Tenant Improvements shall consist of all those items not included within in the scope of the Building Shell definition pursuant to Article 7.A above and Exhibit "D". The Tenant Improvement Plans and Specifications shall be prepared in sufficient detail to allow Landlord to construct the Tenant Improvements. Landlord shall construct the Tenant Improvements in accordance with all Tenant Improvement Plans and Specifications. Tenant shall pay for all costs and expenses associated with the construction of the Tenant Improvements.

C. Preliminary Cost Estimates.

i. Building Shell. Within fourteen (14) days after Tenant's delivery of the Shell

Plans and Specifications as Landlord, Landlord shall deliver to Tenant a preliminary cost estimate of the cost to construct the Building Shell. The preliminary cost estimate shall contain sufficient detail for Tenant to understand the cost element of each portion of the proposed Building Shell.

ii. Tenant Improvements. Within fourteen (14) days after Tenant's delivery of the Tenant Improvement Plans and Specifications to Landlord, Landlord shall also deliver to Tenant a preliminary cost estimate of the cost to construct the Tenant Improvements. The preliminary cost estimate shall contain sufficient detail for Tenant to understand the cost element of each portion of the proposed Tenant Improvements.

D. Final Pricing.

i. Building Shell. Within ten (10) days after Tenant's approval of the preliminary cost estimate for the Building Shell, Landlord shall submit to Tenant competitive bids from a minimum of three (3) subcontractors for each aspect of the work which is to be performed. Landlord must utilize the low bid in each case, unless Tenant approves Landlord's use of another subcontractor, and the cost of the Building Shell shall be based upon construction expenses equal to the sum of the bid amounts as approved by Tenant. Upon Tenant's written approval of the contract bids, Landlord and Tenant shall each be deemed to have given their approval of the final Shell Plans and Specifications on which the cost estimate was made, and Landlord shall proceed with the construction of the Building Shell in accordance with the terms of Article 7.H below. If Tenant does not specifically approve or disapprove the bids within seven (7) days, Tenant shall be deemed to have approved the bids.

ii. Tenant Improvements. Within ten (10) days after Tenant's approval of the preliminary cost estimate for the Tenant Improvements, Landlord shall submit to Tenant competitive bids from a minimum of three (3) subcontractors for each aspect of the work which is to be performed. Landlord must utilize the low bid in each case, unless Tenant approves Landlord's use of another subcontractor, and the cost of the Tenant Improvements shall be based upon construction expenses equal to the sum of the bid amounts as approved by Tenant. Upon Tenant's written approval of the contract bids, Landlord and Tenant shall each be deemed to have given their approval of the final Tenant Improvement Plans and Specifications on which the cost estimate was made, and Landlord shall proceed with the construction of the Tenant Improvements in accordance with the terms of Article 7.H below. If Tenant does not specifically approve or disapprove the bids within seven (7) days, Tenant shall be deemed to have approved the bids.

E. Change Orders. Tenant shall have the right to order changes in the manner and type of construction of the Building Shell or the Tenant Improvements. Any change orders which are submitted by Tenant after the date which is ten (10) days after the issuance by the City of San Jose of a building permit for the construction of the Building Shell, which cause Landlord's construction schedule to be delayed shall cause the Commencement Date to occur one (1) day in advance of the date the Building Shell is Substantially Complete, as defined in Article 7.H, for each day of delay. Upon request and prior to Tenant's submitting any binding change order, Landlord shall promptly provide Tenant with written statements of the cost to implement and the time delay and increased construction costs associated with any proposed change order, which statements shall be binding on Landlord. If no time delay or increased construction cost amount is noted on the written statement, the parties agree that there shall be no adjustment to the construction cost or the Commencement Date associated with such change order. If ordered by Tenant, Landlord shall implement such change order, and the cost of constructing the Tenant Improvements shall be increased in accordance with the cost statement previously delivered by Landlord to Tenant for any such change order.

F. Building Shell Costs. Landlord shall pay all costs associated with the Building Shell. The costs of the Building Shell shall consist of only the following costs to the extent actually incurred by Landlord in connection with the construction of the Building Shell: costs of construction, costs of permits, and the general contractor overhead described in Article 7.J below. During the course of construction of the Building Shell, Landlord may deliver to Tenant not more than once each calendar month a written request for payment which shall include and be accompanied by: (i) Landlord's certified statements setting forth the amount requested certifying the percentage of completion of each item for which reimbursement is requested and certifying that the progress payment requested is due to a subcontractor of Landlord pursuant to a contract between Landlord and Landlord's subcontractor. Tenant shall pay to Landlord, within fifteen (15) days after Tenant's receipt of the above items, any costs incurred by Landlord in excess of the Building Shell Allowance in connection with the Building Shell in accordance with the Shell Plans and Specifications minus the retainage set forth below. Tenant shall be entitled to retain ten percent (10%) of the amount invoiced by Landlord until the Building Shell is "Substantially Complete" (defined in Article 7.H below). Tenant shall pay the retained balance owing to Landlord within fifteen (15) days following the date that the Building Shell is Substantially Complete. All costs for Building Shell shall be fully documented to and verified by Tenant. The amounts charged to Tenant shall be limited as provided in Article 7.D.i above.

G. Tenant Improvement Costs. The costs of the Tenant Improvements shall consist of only the following costs to the extent actually incurred by Landlord in connection with the construction of the Tenant Improvements: costs of construction, costs of permits, and the Landlord overhead described in Article 7.J below. During the course of construction of the Tenant Improvements, Landlord may deliver to Tenant not more than once each calendar month a written

request for payment which shall include and be accompanied by: (i) Landlord's certified statements setting forth the amount requested certifying the percentage of completion of each item for which reimbursement is requested and certifying that the progress payment requested is due to a subcontractor of Landlord pursuant to a contract between Landlord and Landlord's subcontractor. Tenant shall pay to Landlord, within fifteen (15) days after Tenant's receipt of the above items, the costs incurred by Landlord in connection with the Tenant Improvements installed in the Building in accordance with the Tenant Improvement Plans and Specifications minus the retainage set forth below. Tenant shall be entitled to retain ten percent (10%) of the amount invoiced by Landlord until the Tenant Improvements are "Substantially Complete" (defined in Article 7.H below). Tenant shall pay the retained balance owing to Landlord within fifteen (15) days following the date that the Tenant Improvements are Substantially Complete. All costs for Tenant Improvements shall be fully documented to and verified by Tenant. The amounts charged to Tenant shall be limited as provided in Article 7.D.ii above.

H. Construction. Landlord shall use its best efforts to obtain a building permit from the City of San Jose as soon as possible after Tenant's approval of the Shell Plans and Specifications. The Building Shell and Tenant Improvements shall be deemed substantially complete ("Substantially Complete") when the Building Shell and Tenant Improvements have been substantially completed in accordance with the Shell Plans and Specifications and Tenant Improvement Plans and Specifications, as evidenced by the issuance of a certificate of occupancy or its equivalent by the appropriate governmental authority for the Building Shell and Tenant Improvements, and the issuance of a certificate by Tenant's Architect certifying that the Building Shell and Tenant Improvements have been completed in accordance with the plans.

I. Documents. Landlord shall at all times keep one (1) complete set of all contract documents (i.e., approved drawings, shop and setting drawings, specifications, samples, addenda and change orders) current and in good order on the job site. Such documents shall be available for review by representatives of Tenant, its consultants and any public officials at any time. Record drawings marked with all changes made during the job shall be kept on the job site by Landlord. Upon acceptance of the work, the record document print set shall be immediately forwarded to Tenant's Architect for changes to the originals. The changes shall be noted on the original and one (1) mylar reproducible set of the originals shall be forwarded to Tenant. Tenant shall be provided with two (2) copies of these specifications.

J. Landlord Overhead & Profit. As compensation to Landlord for its services as general contractor for the Building Shell and Tenant Improvements, Landlord shall be entitled to a fee as specified in the Fee Agreement attached as Exhibit "G". Except as provided therein, Landlord

shall not be entitled to any other fee or payment from Tenant in connection with Landlord's services as general contractor.

K. Insurance/Indemnity. Landlord shall indemnify, protect, defend and hold Tenant harmless from and against all liability, cost, expense, or damage (including, without limitation, attorneys fees) arising from: (i) the construction of the Building Shell or the Tenant Improvements; or (ii) any construction defects, or (iii) any failure to properly construct the Building Shell or Tenant Improvements in accordance with the approved Shell Plans and Specifications or Tenant Improvement Plan and Specifications. Tenant's review and approval of any plans, specifications, or any other documents shall not relieve Landlord from Landlord's obligations under the foregoing indemnification. Landlord shall procure (as a cost of the Building Shell) and keep in effect from the execution date of this Lease until the termination of this Lease a "Broad Form" liability insurance policy in the amount of Three Million Dollars (\$3,000,000.00), insuring all of Landlord's activities with respect to the Building and Premises, including Landlord's indemnity obligations under this Article 7.K. In addition, Landlord shall procure (as a cost of the Building Shell) builder's risk insurance, insuring the Building Shell and Tenant Improvements for their full replacement cost while the Building and Tenant Improvements are under construction, and until the date that the fire insurance policy described in Article 12 of the Lease is in full force and effect.

L. Punchlist Items. After the Building Shell and Tenant Improvements are Substantially Complete, Landlord shall immediately correct any construction defect or other "punchlist" item which Tenant brings to Landlord's attention. All such work shall be performed in a manner designed to cause the least possible interruption to Tenant and Tenant's activities on the Premises.

M. Other Work by Tenant. All work not within the scope of work normally constructed by the construction trades employed on the Building and not described in the Shell Plans and Specifications or Tenant Improvement Plans and Specifications, such as furniture, telephone equipment, telephone wiring and office equipment work, shall be furnished and installed by Tenant.

O. Parking Lot. Landlord, at Landlord's sole cost and expense, shall construct a parking lot, with a minimum of approximately 544 parking spaces, on the Premises in the location set forth in Exhibit "C". Landlord shall cause the parking lot to comply in all respects with all applicable governmental rules, regulations, and orders, and shall create a sufficient number of parking spaces to comply with all governmental requirements in connection with the Building.

P. Tank Farm. Landlord shall not develop any portion of the “tank farm pad” as set forth in Exhibit “C”, without the prior written consent of Tenant. Tenant shall have the right at any time to construct a tank farm, designed by Tenant, on the tank farm pad.

8. ACCEPTANCE OF POSSESSION AND COVENANTS TO SURRENDER: Tenant agrees on Expiration Date, or on the sooner termination of this Lease, to surrender the Premises to Landlord in good condition and repair, reasonable wear and tear, actions of Landlord or Landlord’s Parties, or damage due to casualty excepted. “Good Condition” shall mean that the interior walls of all office and warehouse areas, the floors of all office and warehouse areas, all suspended ceilings and carpeting will be cleaned and free of any major defacements. Tenant on or before the Expiration Date or sooner termination of this Lease, shall remove all its personal property and trade fixtures from the Premises, and all property and fixtures not so removed shall be deemed to be abandoned by Tenant. Tenant shall ascertain from Landlord at the time Tenant desires to make any Alteration (including Permitted Alterations), whether Landlord desires to have such Alteration removed at the Expiration Date or to cause Tenant to surrender the Alteration to Landlord. If Landlord so notifies Tenant in writing within fifteen (15) days after Tenant’s notice to Landlord that Tenant intends to alter the Building, then Tenant shall remove such Alteration, as Landlord may require in such written notice, and shall repair and restore said Building or such part or parts thereof before the Expiration Date at Tenant’s sole cost and expense. If Landlord has not provided Tenant with such written notice within said fifteen (15) days period, then Tenant shall have no obligation to remove such Alteration from the Premises upon the Expiration Date or earlier termination of this Lease. Notwithstanding the terms of this Article 8, Tenant shall not have an obligation to remove any Tenant Improvements installed prior to the first anniversary of the Commencement Date from the Premises at any time.

9. USES PROHIBITED: Tenant shall not commit, or suffer to be committed, any waste upon the said Premises, or any nuisance, or allow any sale by auction upon the Premises, or allow the Premises to be used for any unlawful purpose, or place any loads upon the floor, walls, or ceiling which endanger the structure, or use any machinery or apparatus which will in any manner vibrate or shake the Premises. Except for materials which may be stored in the enclosed tank farm area outside the Building, no materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature or any waste materials, refuse, scrap or debris shall be stored upon or permitted to remain on any portion of the Premises outside of the Building proper without Landlord’s prior approval, which approval shall not be unreasonably withheld.

10. ALTERATIONS AND ADDITIONS: Except for those improvements installed prior to the first anniversary of the Commencement Date and Permitted Alterations (as defined below), Tenant shall not make, or suffer to be made, any alteration or addition to the said Premises (“Alterations”), or any part thereof, without (i) the written consent of Landlord first had and

obtained, which consent shall not be unreasonably withheld or delayed, and (ii) delivering to Landlord the proposed architectural and structural plans, if any, for all such Alterations. After having obtained Landlord's consent, Tenant agrees that it shall not proceed to make such Alterations until Tenant has obtained all required governmental approvals and permits. Tenant further agrees to provide Landlord (i) written notice of the anticipated start date and actual start date of the work, and (ii) a complete set of half-size (15" X 21") vellum as-built drawings. All Alterations shall be constructed in compliance with applicable buildings codes and laws. Alterations which are not to be deemed as trade fixtures shall include heating, lighting, electrical systems, air conditioning, partitioning, carpeting, or any other installation which has become affixed to the Premises. All Alterations shall be maintained, replaced or repaired by Tenant at Tenant's sole cost and expense, except as provided in Section 11 below. Notwithstanding the above, Tenant shall have the right to remove any trade fixtures, furniture, or process equipment paid for by Tenant from the Premises at the expiration of the Lease, which items shall include, without limitation, the items set forth in Exhibit "F" attached hereto and incorporated herein by this reference.

Notwithstanding the foregoing, Tenant shall have the right, without the prior written consent of Landlord, to make certain alterations, additions or improvements (the "Permitted Alterations") which (i) do not affect the Building systems or structural components of the Building and (ii) which cost less, on an individual basis, than One Hundred Fifty Thousand Dollars (\$150,000), provided that each such Permitted Alteration is otherwise performed in accordance with the terms of this Section 10. Ownership of any Alterations, Permitted Alterations or Tenant Improvements paid for by Tenant shall remain in Tenant throughout the Term of this Lease, and Tenant shall be entitled to the benefit of any depreciation or other tax benefits arising therefrom, provided that Landlord shall, upon the Expiration Date or earlier termination of the Term hereof, become the owner of any Alterations or Tenant Improvements made to the Premises which, pursuant to the terms of this Lease, are left on the Premises by Tenant. Tenant shall give Landlord at least ten (10) days' prior written notice of any Alteration or Permitted Alteration so that Landlord can post a notice of non-responsibility with respect thereto.

11. MAINTENANCE OF PREMISES:

A. Tenant's Obligations: Tenant shall, at its sole cost, keep and maintain and repair and said Premises and appurtenances and every part hereof, including but not limited to, roof membrane, glazing, sidewalks, parking areas, telephone, plumbing, electrical and HVAC systems, and all the Tenant Improvements in good and sanitary order, condition, and repair. Tenant shall enter into a service contract with a licensed air-conditioning and heating contractor which contract shall provide for maintenance of all air conditioning and heating equipment at the Premises in accordance with general industry practices. Tenant shall pay the cost of all air-conditioning heating, and elevator equipment repairs which are either excluded from such service contract or any existing equipment warranties. All wall surfaces and floor tile are to be maintained in an as good a condition

as when Tenant took possession free of holes, gouges, or defacements, except for damage resulting from normal wear and tear, casualty or other acts of God, Landlord, Landlord's agents, employees, contractors or invitees ("Landlord Parties") In no event, however, shall Tenant's obligation to repair under this subsection extend to (i) damage and repairs covered under any insurance policy carried by Landlord in connection with the Building; (ii) damage caused in whole or in part by the negligence or willful misconduct of Landlord or Landlord's agents, employees, invitees or licensees, (iii) reasonable wear and tear; (iv) conditions covered under any warranties of contractors; or (v) damage by fire and other casualties, or acts of governmental authorities, or acts of God and the elements.

Tenant shall also be responsible, at its sole cost and expense for the preventive maintenance of the membrane of the roof, which responsibility shall be deemed properly discharged if (i) Tenant contracts with a licensed roof contractor who is reasonably satisfactory to both Tenant and Landlord, at Tenant's sole cost, to inspect the roof membrane at least every six (6) months, with the first inspection due the sixth (6th) month after the Commencement Date, and (ii) Tenant performs, at Tenant's sole cost, all preventive maintenance recommendations made by such contractor within a reasonable time after such recommendations are made. Such preventive maintenance might include acts such as clearing storm gutters and drains, removing debris from the roof membrane, trimming trees overhanging the roof membrane, applying coating materials to seal roof penetrations, repairing blisters, and other routine measures. Tenant make available for Landlord's inspection such preventive maintenance contracts and paid invoices for the recommended work. Tenant agrees, at its expense, to water, maintain and replace, when necessary, any shrubbery and landscaping. Nothing herein shall require either Landlord or Tenant to replace any Tenant Improvements.

B. Landlord's Obligations: Landlord at its sole cost and expense, and without reimbursement of all or any such costs from Tenant, shall (i) maintain in good condition, order, and repair, and replace as and when necessary the structural portions of the building including: the foundation, exterior walls, structure and structural members, and roof structure of the Building; and (ii) repair and damage caused by the acts or omissions of Landlord or Landlord's Parties. Subject to the obligations of Tenant to provide periodic inspections and perform maintenance of the membrane of the roof in accordance with the provisions set forth in Article 11.A above, Landlord shall also replace as and when necessary, the membrane of the roof. Tenant may give Landlord notice of any repairs or replacements that are required of Landlord under the terms of this Lease and Landlord shall proceed forthwith to effect the same with reasonable diligence. In the event of an emergency Tenant shall be empowered to undertake immediate repairs of such nature as would be Landlord's responsibility and notify Landlord promptly after such repairs have been undertaken.

12. HAZARD INSURANCE:

A. Tenant's Use: Tenant shall not use, or permit said Premises, or any part thereof, to

be used, for any purpose other than that for which the said Premises are hereby leased; and no use shall be made or permitted to be made of the said Premises, nor acts done, which will cause a cancellation of any insurance policy covering said Building, or any part thereof, nor shall Tenant sell or permit to be kept, used or sold, in or about said Premises, any article which may be prohibited by the standard form of fire insurance policies. Tenant shall (subject to the provisions of Article 17 as to Alterations required which are not a result of Tenant's specific use), at its sole cost and expense, comply with any and all reasonable requirements, pertaining to said Premises, of any insurance organization or company, necessary for the maintenance of reasonable fire and public liability insurance, covering said Premises and appurtenances.

B. Landlord's Liability Insurance: Landlord shall procure and maintain during the Term of this Lease a policy of (i) commercial general liability insurance having a combined single limit for bodily injury and property damage of not less than One Million Dollars (\$1,000,000.00) per occurrence; and (ii) a general aggregate insurance in an amount of not less than Five Million Dollars (\$5,000,000.00). The policy shall provide coverage for blanket contractual liability (except for the negligence or willful misconduct of the non-insured party) premises and personal injury coverage. Landlord shall furnish to Tenant prior to the Commencement Date, and thereafter within thirty (30) days prior to the expiration of each such policy, a certificate of insurance issued by the insurance carrier of each policy of insurance carried hereunder.

C. Property Insurance: Landlord agrees to purchase and keep in force fire, and extended coverage ("All Risk" excluding earthquake) insurance covering the Premises pursuant to the provisions of Article 10) in amounts not less than the replacement cost of said Premises as mutually determined by Landlord and Tenant. Tenant agrees to pay to the Landlord as additional rent, on demand, the full cost of said insurance as evidenced by insurance billings to the Landlord, and in the event of damage covered by said insurance which does not result in a termination of this Lease, the amount of any deductible under such policy, provided such deductible is not greater than \$20,000.00. Payment shall be due to Landlord within ten (10) days after written invoice to Tenant. It is understood and agreed that Tenant's obligation under this Article will be prorated to reflect the commencement and termination dates of this Lease.

Notwithstanding the forgoing, Tenant shall have the right to provide the hazard insurance for the Premises provided (i) Tenant can obtain such insurance at a more favorable rate than Landlord; (ii) the form of coverage and insurer are satisfactory to Landlord and its lender; (iii) Landlord and its lender are named as additional insured; (iv) such insurance provides that it may not be subject to cancellation or change except after at least thirty (30) days written notice to Landlord; and (v) Tenant has delivered to Landlord a certificate of insurance and additional insured endorsement evidencing such policy is in effect.

E. Tenant's Insurance: In addition, Tenant agrees to insure its personal property, the

Tenant Improvements, any Alterations not owned by Landlord pursuant to the terms of Article 10 and to obtain worker's compensation and public liability and property damage insurance for occurrences within the Premises with combined limits for bodily injury and property damage of not less than \$1,000,000.00 per occurrence and a general aggregate limit of not less than \$5,000,000.00. Tenant shall name Landlord and Landlord's lender as an additional insured, shall deliver a copy of the policies and renewal certificates to Landlord. All such policies shall provide for thirty (30) days' prior written notice to Landlord of any cancellation, termination, or reduction in coverage.

D. Waiver: Landlord and Tenant hereby waive any and all rights each may have against the other on account of any loss or damage occasioned to the Landlord or the Tenant as the case may be, or to the Premises or its contents, and which may arise from any risk covered by their respective insurance policies (or which would have been covered had such insurance policies been maintained in accordance with this Lease), as set forth above. The parties shall obtain from their respective insurance companies a waiver of any right of subrogation which said insurance company may have against the Landlord or the Tenant, as the case may be.

E. General: Insurance required hereunder shall be written by companies licensed to do business in the state in which the Premises are located and have a General Policyholder's rating of at least A8 (or such higher rating as may be required by a lender having lien on the Property) as set forth in the most current issue of Best's Insurance Guide. All insurance shall expressly provide that such policies shall not be cancelable or subject to reduction of coverage or otherwise be subject to modification except after thirty (30) days prior written notice to any other party named as additional insureds.

13. TAXES: Tenant shall be liable for, and shall pay prior to delinquency, all taxes and assessments levied against personal property and trade or business fixtures, and agrees to pay, as additional rental, all real estate taxes and assessment installments (special or general) or other impositions or charges which may be levied on the Premises, upon the occupancy of the Premises and including any substitute or additional charges which may be imposed during, or applicable to the Lease Term including real estate tax increases due to a sale or other transfer of the Premises, as they appear on the City and County tax bills during the Lease Term, and as they become due. It is understood and agreed that Tenant's obligation under this Article will be prorated to reflect the Commencement and Expiration Dates. If, at any time during the Lease Term a tax, excise on rents, business license tax, or any other tax, however described, is levied or assessed against Landlord, as a substitute or addition in whole or in part for taxes assessed or imposed on land or Buildings, Tenant shall pay and discharge his pro rata share of such tax or excise on rents or other tax before it becomes delinquent. In the event that a tax is placed, levied, or assessed against Landlord and the taxing authority takes the position that the Tenant cannot pay and discharge his pro rata share of such tax on behalf of the Landlord, then at the sole election of the Landlord, the Landlord may increase the rental charged hereunder by the exact amount of such tax and Tenant shall pay such increase as

additional rent hereunder. Landlord hereby grants to Tenant the right to contest, on behalf and in the name of Landlord, all taxes and assessments which are imposed upon the Premises; Landlord agrees to cooperate fully with Tenant and to execute all documents requested by Tenant, in connection with any such contest. If by virtue of any application or proceeding brought by Landlord results a reduction in the assessed value of the Building during the Lease Term, Tenant agrees to reimburse Landlord its reasonable, actual third party out of pocket costs incurred by Landlord in connection with such application or proceeding.

Notwithstanding the foregoing, the following shall not constitute real estate taxes for the purposes of this Lease, and nothing contained herein shall be deemed to require Tenant to pay any of the following: (i) any state, local, federal, personal or corporate income tax measured by the income of Landlord; (ii) any estate or inheritance taxes; (iii) any franchise, succession or transfer taxes; (iv) interest on taxes or penalties resulting from Landlord's failure to pay taxes, except to the extent such failure is due to Tenant's failure to pay such taxes to Landlord when provided under this Lease; (v) any assessments for public improvements or any taxes initiated by Landlord which are essentially payments to a governmental agency for the right to make improvements to the Building or surrounding area, to the extent such assessments are not in effect as of the Execution Date and have not received the prior written consent of Tenant; and (vi) any environmental tax, surcharge or other fee affecting the Premises due to Landlord's activities with respect to Hazardous Materials, as opposed to general, areawide taxes or surcharges with respect to the remediation or testing for Hazardous Materials. If any assessments affecting the Premises are payable in installments and Landlord should prepay such assessments in advance of the date such installments would become due, Tenant shall be solely responsible for the portion of such assessments that would have normally come due as an installments, unless consented to by tenant in writing.

Notwithstanding anything to the contrary contained in this Lease, Landlord shall pay, and Tenant shall have no responsibility for, any real property taxes resulting from any changes in ownership, sale, or other transfer of the Premises or Building during the initial Term of the Lease to the extent that such amount reflects an assessed valuation of the Premises in excess of one hundred fifty percent (150%) of the "Commencement Date Valuation." The "Commencement Date Valuation" shall mean the assessed valuation of the Premises (as improved with the Building) as determined by the Santa Clara County Assessor, as of the first date after the Commencement Date that the Santa Clara County Assessor reassesses the Premises based on the completion of construction of the Building and Tenant Improvements.

14. UTILITIES: Tenant shall pay directly to the providing utility all water, gas, heat, light, power, telephone and other utilities supplied to the Premises. Except for any damages resulting from the negligence, willful misconduct, or breach of contract by Landlord, or its agents, or contractors Landlord shall not be liable for a loss of or injury to property, however occurring, through or in connection with or incidental to furnishing or failure to furnish any utilities to the

Premises and Tenant shall not be entitled to abatement or reduction of any portion of the Base Monthly Rent so long as any failure to provide and furnish the utilities to the Premises is due to a cause beyond the Landlord's reasonable control, and is not the result of the negligence, willful misconduct, or breach of contract by Landlord, or its agents, or contractors.

In the event of any interruption in utilities or services to be provided to the Premises, Tenant's rights and remedies shall be as follows: (i) if such interruption is due to a failure of Tenant to pay the providing utility when due, Base Rent due hereunder shall not be abated and Landlord shall have no liability to Tenant whatsoever as a result of such interruption; (ii) if such interruption is due to the actions of Landlord or Landlord's Parties, the Base Rent hereunder shall be equitably abated as of the time such interruption commenced and Landlord shall be liable to Tenant for loss or injury to property and Tenant's business as a result thereof; (iii) if such interruption is due to the failure of the providing utility to provide such utility or service to the Premises and such interruption continues for more than ninety (90) continuous days, then Tenant shall be entitled to terminate this Lease by delivery of written notice to Landlord within five (5) days following the expiration of such ninety (90) day period; and (iv) if such interruption is due to an event of damage or destruction, the rights of the parties hereunder shall be as described in Section 28 below.

15. This paragraph intentionally left blank.

16. FREE FROM LIENS: Except for obligations arising from the construction of the Building Shell, Tenant Improvements, and parking lot, Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by Tenant. Landlord shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred in connection with the Building Shell, Tenant Improvements, or parking lot. In the event Tenant fails to discharge or bond over any such lien within thirty (30) days after receiving notice of the filing, Landlord shall be entitled to discharge such lien at Tenant's expense and all resulting costs incurred by Landlord, including reasonable attorney's fees shall be due from Tenant as additional rent.

17. COMPLIANCE WITH GOVERNMENTAL REGULATIONS: Tenant shall, at its sole cost and expense, comply with all of the requirements of all Municipal, State and Federal authorities now in force, or which may hereafter be in force, which are imposed as a result of Tenant's particular and specific use of the Premises, and shall faithfully observe in the use of the Premises all Municipal ordinances and State and Federal statutes now in force or which may hereafter be in force. The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any such ordinance or statute in the use of the Premises, shall be conclusive of that fact as between Landlord and Tenant. In the event an Alteration is required to the Building Shell by any law, rule,

ordinance or decision not in effect as of the Commencement Date of this Lease which is not imposed as a result of Tenant's particular and specific use of the Premises (whether pursuant to Article 12 or this Article 17), Tenant shall only be required to pay that portion of the cost equal to the product of such total cost multiplied by a fraction, the numerator of which is the number of months remaining in the Lease Term, the denominator of which is the useful life (in months) of the Alteration.

18. TOXIC WASTE AND ENVIRONMENTAL DAMAGE:

A. Landlord's Responsibility: Landlord represents and warrants to Tenant that, except as disclosed in the attached environmental studies dated June 18, 1990, July 2, 1990, July 25, 1994, and the Burrowing Owl study from H.T. Harvey & Associates, to the best of Landlord's knowledge, the Premises and the Building, as of the Commencement Date, do not contain any chemicals, toxic or hazardous gaseous, liquid or solid materials or waste, including without limitation, material or substance having characteristics of ignitability, corrosivity, reactivity, or extraction procedure toxicity or substances or materials which are listed on any of the Environmental Protection Agency's list of hazardous wastes or which are identified in Section 66680 through 66685 of Title 22 of the California Administrative Code, 42 U.S.C. Section 9601, et seq., 49 U.S.C. Sections 1801, et seq., 42 U.S.C. Section 6901, et seq., or California Health and Safety Code Section 25117, as the same may be amended from time to time ("Hazardous Materials"). Landlord shall indemnify, protect, defend and hold Tenant harmless from and against all liability, cost, damage and expense (including, without limitation attorneys' fees) arising from either: (i) the failure of the representation and warranty contained in the immediately preceding sentence; (ii) the presence of any Hazardous Materials or Burrowing Owls on or about the Premises on or prior to the Commencement Date; or (iii) the presence, release storage or use of Hazardous Materials on the Premises during the Term by any party other than Tenant, Tenant's agents, employees, contractors or invitees ("Tenant's Parties").

B. Tenant's Responsibility: Landlord hereby approves Tenant's use on or about the Premises of Hazardous Materials used by Tenant in connection with Tenant's business. Tenant represents and warrants that Tenant will (i) adhere to all reporting and inspection requirements imposed by Federal, State, County or Municipal laws, ordinances or regulations and will make available for inspection by Landlord a copy of any such reports or agency inspections, (ii) obtain and make available for inspection by Landlord copies of all necessary permits required for the use and handling Hazardous Materials on the Premises, (iii) enforce Hazardous Materials handling and disposal practices consistent with industry standards, (iv) surrender the Premises free from any Hazardous Materials arising from Tenant's bringing, using, permitting, generating, emitting or disposing of Hazardous Materials, and (v) properly close the facility with regard to Hazardous Materials including the removal or decontamination of any process piping, mechanical ducting, storage tanks, containers, or trenches which have come become contaminated with Hazardous Materials and obtain a closure certificate from the local administering agency prior to the Expiration

Date to the extent required by Law.

C. Tenant's Indemnity Regarding Hazardous Materials: Tenant shall comply, at its sole cost, with all laws pertaining to, and shall indemnify and hold Landlord harmless from any claims, liabilities, costs or expenses incurred or suffered by Landlord arising from such bringing, using, permitting, generating, emitting or disposing of Hazardous Materials on the Premises by Tenant or Tenant's Parties. Tenant's indemnification and hold harmless obligations include, without limitation, (i) claims, liability, costs or expenses resulting from or based upon administrative, judicial (civil or criminal) or other action, legal or equitable, brought by any private or public person under common law or under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Resource Conservation and Recovery Act of 1980 ("RCRA") or any other Federal, State, County or Municipal law, ordinance or regulation, (ii) claims, liabilities, costs or expenses pertaining to the identification, monitoring, cleanup, containment, or removal of Hazardous Materials from soils, riverbeds or aquifers including the provision of an alternative public drinking water source, and (iii) all reasonable costs of defending such claims.

D. Actual Release by Tenant: Tenant agrees to notify Landlord upon learning of any lawsuits which relate to, or orders which relate to the remedying of, the actual release by Tenant or Tenant's Parties of Hazardous Materials on or into the soils or groundwater at or under the Premises. Tenant shall also provide to Landlord all notices required by Section 25359.7(b) of the Health and Safety Code and all other notices required by law to be given to Landlord in connection with Hazardous Materials. Without limiting the foregoing, Tenant shall also deliver to Landlord, within twenty (20) days after receipt thereof, any written notices from any governmental agency alleging a material violation of, or material failure to comply with, any federal, state or local laws, regulations, ordinances or orders, the violation of which of failure to comply with, poses a foreseeable and material risk of contamination of the groundwater or injury to humans (other than injury solely to Tenant, its agents and employees within the Improvements on the Property).

In the event of any release on or into the Premises or into the soil or groundwater under the Premises of any Hazardous Materials used, treated, stored or disposed of by Tenant, Tenant agrees to comply, at its sole cost and expense, with all laws, regulations, ordinances and orders of any federal, state or local agency relating to the monitoring or remediation of such Hazardous Materials. In the event of any such release of Hazardous Materials, Tenant agrees to meet and confer with Landlord and its Lender to attempt to eliminate and mitigate any financial exposure to such Lender and resultant exposure to Landlord under California Code of Civil Procedure section 736(b) as a result of such release and promptly to take reasonable monitoring, cleanup and remedial steps given, inter alia, the historical uses to which the Property has and continues to be used, the risks to public health posed by the release, the then available technology and the costs of remediation, cleanup and monitoring, consistent with acceptable customary practices for the type and severity of such contamination and all applicable laws. Nothing in the preceding sentence shall eliminate,

modify or reduce the obligation of Tenant under Article 18.B of this Lease to indemnify and hold Landlord harmless from any claims liabilities, costs or expenses incurred or suffered by Landlord as provided in Article 18.B of this Lease. Tenant shall provide Landlord prompt written notice of Tenant's monitoring, cleanup and remedial steps. Tenant shall have the right, at Tenant's expense and in Tenant's name, to contest or object in good faith to any alleged violation by Tenant of any applicable law relating to the use of Hazardous Materials by appropriate legal proceedings which are not prejudicial to Landlord's rights if (i) Tenant shall have demonstrated by Landlord's satisfaction that such legal proceedings shall conclusively operate to prevent enforcement prior to final determination of any such proceedings. In the event that, by non-performance of any such items, the Premises is subject to imminent loss or forfeiture, Tenant shall perform any such act required by the relevant governmental authority.

In the absence of an order of any federal, state or local governmental or quasi-governmental agency relating to the cleanup, remediation or other response action required by applicable law, any dispute arising between Landlord and Tenant concerning Tenant's obligation to Landlord under this Article 18.D concerning the Level, method, and manner of cleanup, remediation or response action required in connection with such a release of Hazardous Materials shall be resolved by mediation and/or arbitration pursuant to the provisions of Article 45 of this Lease.

E. Environmental Monitoring: Landlord and its agents shall have the right, at Landlord's sole cost and expense, (unless Tenant is in violation of this Article 18 in which event such monitoring shall be at Tenant's expense) to inspect, investigate, sample and/or monitor the Premises, including any air, soil, water, groundwater or other sampling or any other testing, digging, drilling or analysis to determine whether Tenant is complying with the terms of this Article 18. If Landlord discovers that Tenant is not in compliance with the terms of this Article 18, any such reasonable costs incurred by Landlord, including attorneys' and consultants' fees shall be due and payable by Tenant to Landlord within thirty (30) days following Landlord's written demand therefore.

19. INDEMNITY: As a material part of the consideration to be rendered to Landlord, Tenant hereby waives all claims against Landlord for damages to goods, wares and merchandise, and all other personal property in, upon or about said Premises and for injuries to persons in or about said Premises, from any cause except to the extent due to the negligence or willful misconduct of Landlord or Landlord's Parties to the fullest extent permitted by law, and Tenant shall indemnify and hold Landlord exempt and harmless from any damage or injury to any person, or to the goods, wares and merchandise and all other personal property of any person, arising from the use of the Premises, Building, and/or Project by Tenant, its employees, contractors, agents and invitees or from the failure of Tenant to keep the Premises in good condition and repair, as herein provided, except to the extent due to the negligence or willful misconduct of Landlord or Landlord's Parties. Further, in the event Landlord is made party to any litigation due to the acts or omission of Tenant, its

employees, contractors, agents and invitees, Tenant will indemnify and hold Landlord harmless from any such claim or liability including Landlord's costs and expenses and reasonable attorney's fees incurred in defending such claims.

Landlord shall defend, indemnify by counsel acceptable to Tenant, protect Tenant, its officers, employees and agents harmless from and against any liabilities, loss, cost, damage, injury or expense (including reasonable attorneys' fees and court costs) arising out of or related to the willful misconduct or negligence of Landlord or Landlord's Parties.

20. ADVERTISEMENTS AND SIGNS: Tenant will not place or permit to be placed, in, upon or about the exterior of the Building any signs which are prohibited by the city or other governing authority. The Tenant will not place, or permit to be placed upon the exterior of the Building, any signs, advertisements or notices without the written consent of the Landlord as to type, size, design, lettering, coloring and location, and such consent will not be unreasonably withheld. Any sign so placed on the exterior of the Building shall be so placed upon the understanding and agreement that Tenant will remove same at the termination of the tenancy herein created and repair any damage or injury to the exterior of the Building caused thereby, and if not so removed by Tenant then Landlord may have same so removed at Tenant's expense.

21. ATTORNEY'S FEES: In case a suit or alternative form of dispute resolution should be brought for the possession of the Premises, for the recovery of any sum due hereunder, or because of the breach of any other covenant herein, the losing party shall pay to the prevailing party a reasonable attorney's fee including the expense of expert witnesses, depositions and court testimony as part of its cost which shall be deemed to have accrued on the commencement of such action. In addition, the prevailing party shall be entitled to recover all costs and expenses including reasonable attorney's fees incurred by the prevailing party in enforcing any judgment or award against the other party. The foregoing provision relating to post-judgment costs is intended to be severable from all other provisions of this Lease.

22. TENANT'S DEFAULT: The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant a) Any failure by Tenant to pay the rental or to make any other payment required to be made by Tenant hereunder, where such failure continues for ten (10) days after Tenant's receipt of written notice thereof by Landlord to Tenant; b) A failure by Tenant to observe and perform any other provision of the Lease to the observed or performed by Tenant, where such failure continues for thirty (30) days after Tenant's receipt of written notice thereof by Landlord; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion; c) The making by Tenant of any general assignment for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or of a

petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed after the filing); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within ninety (90) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within ninety (90) days. The notice requirements set forth herein are in lieu of and not in addition to the notices required by California Code of Civil Procedure Section 1161. Any notice given by Landlord to Tenant pursuant to California Civil Code 1161 with respect to any failure by tenant to pay rent under this Lease on or before the date the rent is due shall provide Tenant with a period of no less than ten (10) days to pay such rent or quit.

A. Remedies: In the event of any such default by Tenant, then in addition to any other remedies available to Landlord at law or in equity, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant: a) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus b) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss for the same period that Tenant proves could have been reasonably avoided; plus c) the worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus d) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, and e) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law. The term "rent", as used herein, shall be deemed to be and to mean the minimum monthly installments of Base Monthly Rent and all other sums required to be paid by Tenant Pursuant to the terms of this Lease, all other such sums being deemed to be additional rent due hereunder. As used in (a) and (b) above, the "worth at the time of award" is to be computed by allowing interest at the rate of the discount rate of the Federal Reserve Bank of San Francisco plus five (5%) percent per annum. As used in (c) above, the "worth at the time of award" is to be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one (1%) percent.

B. Right to Re-enter: In the event of any such default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant and disposed of by Landlord in any manner permitted by law.

C. Abandonment: In the event of the vacation or abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter as provided in Article 22.B above or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Article 22.A above, then the provisions of California Civil Code Section 1951.4, (Landlord may continue the lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has a right to sublet and assign, subject only to reasonable limitations) as amended from time to time, shall apply and Landlord may from time to time, without terminating this Lease, either recover all rental as it becomes due or relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied: first, to the payment of any indebtedness other than Base Monthly Rent due hereunder from Tenant to Landlord; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of Base Monthly Rent due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future Base Monthly Rent as the same may become due and payable hereunder. Landlord shall have no obligation to relet the Premises following a default if Landlord has other available space within the Building or Project. Should that portion of such rentals received from such reletting during any month, which is applied by the payment of rent hereunder, be less than the rent payable during that month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord immediately upon demand therefor by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

D. No Termination: No re-entry or taking possession of the Premises by Landlord pursuant to 22.B or 22.C of this Article 22 shall be construed as an election to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such default.

23. SURRENDER OF LEASE: The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not automatically effect a merger of the Lease with Landlord's ownership of the Premises. Instead, at the option of Landlord, Tenant's surrender may terminate all or any existing sublease or subtenancies, or may operate as an assignment to Landlord of any or all such subleases or subtenancies, thereby creating a direct Landlord-Tenant relationship between Landlord and any subtenants.

24. HABITUAL DEFAULT: Deleted.

25. LANDLORD'S DEFAULT: In the event of Landlord's failure to perform any of its covenants or agreements under this Lease, Tenants shall give Landlord written notice of such failure and shall give Landlord thirty (30) days to cure such failure; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period. Landlord shall not be deemed to be in default if Landlord shall within such period commence such cure and thereafter diligently prosecute the same to completion. In addition, upon any such failure by Landlord, Tenant shall give notice by registered or certified mail or national overnight courier service to any person or entity with a security interest in the Premises ("Mortgage") that has provided Tenant with written notice (including such Mortgagee's address) of its interest in the Premises, and shall provide such Mortgage a period of thirty (30) days beyond the cure period provided Landlord hereunder to cure such failure. Tenant shall not make any prepayment of rent more than one (1) month in advance without the prior written consent of such Mortgagee. Tenant waives any right under California Civil Code Section 1950.7 or any other present or future law to the collection of any payment or deposit from such Mortgagee or any purchaser at a foreclosure sale of such Mortgagee's interest unless such Mortgagee or such purchaser shall have actually received (or have credited to it) and not refunded the application payment or deposit.

26. NOTICES: All notices, demands, requests, or consents required to be given under this Lease shall be sent in writing by U.S. certified mail, return receipt requested, national overnight courier service or by personal delivery addressed to the party to be notified at the address for such party specified in Article 1 of this Lease, or to such other place as the party to be notified may from time to time designate by at least five (5) days prior notice to the notifying party.

27. ENTRY BY LANDLORD: Upon 24 hours prior notice, Tenant shall permit Landlord and his agents to enter into and upon said Premises at all reasonable times subject to any security regulations of Tenant for the purposes of (i) inspecting the same, (ii) maintaining the Premises, (iii) making repairs, alterations or additions to the Premises, (iv) erecting additional building(s) and improvements on the land where the Premises are situated, or on adjacent land owned by Landlord, or (v) performing any obligations of the Landlord under the Lease including remediation of hazardous materials if determined to be the responsibility of Landlord, without any abatement or reduction of rent without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned. Tenant shall permit Landlord and Landlord's Parties, at any time within one hundred eighty (180) days prior to the Expiration Date, unless Tenant has exercised its option to extend the term pursuant to Section 37.A (or at any time during the Lease if Tenant is in default hereunder beyond the applicable cure period), to place upon the Premises "For Lease" signs and exhibit the Premises to real estate brokers and prospective tenants at reasonable hours. Landlord agrees that Landlord and Landlord's Parties shall conduct all of their activities under this

Section 27 in a manner which minimizes the interruption to Tenant or Tenant's activities on the Premises.

28. DESTRUCTION OF PREMISES:

A. Destruction by an Insured Casualty: In the event of a partial destruction of the Premises by a casualty for which Landlord has received insurance proceeds sufficient to repair the damage or destruction during the Lease Term from any cause, Landlord shall forthwith repair the same to the extent of such proceeds, provided such repairs can be made within twelve (12) months from the date of destruction as reasonably determined by the architect responsible for the reconstruction such determination to be made within sixty (60) days of the date of destruction, and such partial destruction shall in no way annul or void this Lease, except that Tenant shall be entitled to a proportionate reduction of Base Monthly Rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by Tenant in the Premises. For purpose of this Article "partial destruction" shall mean destruction of no greater than one-third (1/3) of the replacement cost of the Premises, including the replacement cost of the Tenant Improvements paid for by Landlord. In the event the Premises (i) are more than partially destroyed, or (ii) the repairs cannot be made within twelve (12) months from the date of destruction as reasonably determined by the architect responsible for the reconstruction such determination to be made within sixty (60) days of the date of destruction. Landlord shall not be required to restore Alterations or replace Tenant's fixtures or personal property. In respect to any partial destruction which Landlord is obligated to repair or may elect to repair under the terms of this Article, the provision of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California and any other similarly enacted statute are waived by Tenant and the provisions of this Article 28 shall govern in the case of such destruction. Any disputes between Landlord and Tenant with respect to the degree of damage or destruction of the Premises or the time necessary to rebuild shall be resolved by arbitration pursuant to Section 47 of this Lease.

B. Destruction by an Uninsured Casualty: In the event of a total or partial destruction of the Premises by a casualty for which Landlord has not received insurance proceeds sufficient to repair the damage or destruction during the Lease Term and which would cost in excess of Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) to repair, Landlord shall have the option to terminate this Lease, unless Tenant agrees to contribute the amount of such uninsured loss beyond the initial \$250,000 to repair, which amount shall be the sole obligation of Landlord. Further if the uninsured damage can not be repaired within twelve (12) months from the date of destruction as reasonably determined by the architect responsible for the reconstruction such determination to be made within sixty (60) days of the date of destruction, either Landlord or Tenant shall have the option to terminate this lease.

C. Damage or Destruction at End of Term: If the Building or Premises is damaged or destroyed during the last twenty-four (24) months of the Term of the Lease, and the Premises or Building cannot be fully repaired or restored by Landlord within ninety (90) days after the date of the damage or destruction, either Landlord or Tenant may terminate this Lease upon notice to the other, provided, that Tenant may prevent Landlord's termination of this Lease under this Section 28.C by exercising Tenant's right to extend the Lease Term as described in Section 37.

29. ASSIGNMENT OR SUBLEASE:

A. Consent by Landlord: In the event Tenant desires to assign this Lease or any interest therein including, without limitation, a pledge, mortgage or other hypothecation, or sublet the Premises or any part thereof, Tenant shall deliver to Landlord executed counterparts of any such agreement and of all ancillary agreements with the proposed assignee or subtenant, such assignee or subtenant's most recent financial statements, and any additional information as reasonably required by Landlord to determine whether it will consent to the proposed assignment or sublease. The notice shall give the name and current address of the proposed assignee/ subtenant, proposed use of the Premises, rental rate and current financial statement, and upon request to Tenant, Landlord shall be given additional information as reasonably required by Landlord to determine whether it will consent to the proposed assignment or sublease. Landlord shall then have a period of ten (10) days following receipt of the foregoing agreement, statements and additional information within which to notify Tenant in writing that Landlord elects (i) to permit Tenant to assign or sublet such space to the named assignee/subtenant on the terms and conditions set forth in the notice, or (ii) to refuse consent, which consent shall not be unreasonably withheld or delayed. If Landlord should fail to notify Tenant in writing of such election within said ten (10) day period, Landlord shall be deemed to have elected option (i) above. Landlord's consent (which must be in writing and in form reasonably satisfactory to Landlord) to the proposed assignment or sublease shall not be unreasonably withheld or delayed. Tenant shall not advertise or publicize the availability of the Premises without prior notice to Landlord.

B. Assignment or Subletting Consideration: If Tenant shall assign, sublease or otherwise transfer all or any portion of the Premises to a party other than Tenant Affiliate (as defined in 29.E below), Landlord and Tenant shall evenly divide any rent or other consideration paid to Tenant in connection with such assignment, sublease or other transfer which is in excess of the base rent due under this Lease, after first deducting out for the Tenant's account the cost of (i) broker's commissions paid by Tenant with regard to the transfer; (ii) legal fees; (iii) the cost of improvements made to the Premises at Tenant's expense to the extent such improvements increase the rent paid under the sublease over that which would have been paid without such improvements; (iv) any tenant improvements made by Tenant at Tenant's expense for the purpose of transfer; (v) all rent paid by Tenant to Landlord while the Premises were vacant prior to such transfer; and (vi) any other expenses incurred by Tenant in effectuating the transfer. The terms of this section shall survive the

expiration or earlier termination of the Lease. The above provision relating to the allocation of bonus rent are independently negotiated terms of the Lease, constitute a material inducement for the Landlord to enter into the Lease, and are agreed as between the parties to be commercially reasonable. No assignment or subletting by Tenant shall relieve of any obligation under this Lease. Any assignment or subletting which conflicts with the provisions hereof shall be void.

C. No Release: Any assignment or sublease shall be made only if and shall not be effective until the assignee or subtenant shall execute, acknowledge and deliver to Landlord an agreement, in form and substance satisfactory to Landlord, whereby the assignee or subtenant shall assume all of the obligations of this Lease on the part of Tenant to be performed or observed and shall be subject to all of the covenants, agreements, terms, provisions and conditions contained in this Lease, except as expressly provided for therein. Notwithstanding any such sublease or assignment and the acceptance of rent by Landlord from any subtenant or assignee, Tenant and any guarantor shall and will remain fully liable for the payment of the rent and additional rent due hereunder, and to become due hereunder, for the performance of all of the covenants, agreements, terms, provisions and conditions contained in this Lease on the part of Tenant to be performed and for all acts and omissions of any licensee, subtenant, assignee or any other person claiming under or through any subtenant or assignee that shall be in violation of any of the terms and conditions of this Lease, and any such violation shall be deemed to be a violation by Tenant. Tenant shall further indemnify, defend and hold Landlord harmless from and against any and all losses, liabilities, damages, costs and expenses (including reasonable attorney fees) resulting from any claims that may be made against Landlord by the proposed assignee or subtenant or by any real estate brokers or other persons claiming a commission or similar compensation in connection with the proposed assignment or sublease.

D. Effect of Default: In the event of Tenant's default, Tenant hereby assigns all rents due from any assignment or subletting to Landlord as security for performance of its obligations under this Lease and Landlord may collect such rents, except that Tenant may collect such rents unless a default occurs as described in Article 22 and 24 above. The termination of this Lease due to Tenant's default shall not automatically terminate any assignment or sublease then in existence; at the election of Landlord such assignment or sublease shall survive the termination of this Lease and, upon such election, the assignee or subtenant shall attorn to Landlord and Landlord shall undertake the obligations of the Tenant under the sublease or assignment; provided the Landlord shall not be liable for prepaid rent, or security deposits not received by Landlord or other defaults of the Tenant to the subtenant or assignee, or any acts or omissions of Tenant, its agents, employees, contractors or invitees. Notwithstanding anything to the contrary in this Lease, no event of default shall be deemed to have occurred by virtue of any of act or omission of any subtenant or assignee of Tenant, unless Landlord has delivered to Tenant written notice of such act or omission, and has given Tenant the period(s) of time specified in Article 22 to cure such default.

E. Excluded Transfers: Tenant may assign this Lease or sublet any portion of the Premises without Landlord's consent to any of the following (i) any corporation which controls, is controlled by or under common control with Tenant; (ii) any corporation resulting from the merger or consolidation of Tenant if (a) the successor to Tenant has a net worth, computed in accordance with generally accepted accounting principles, at least equal to the greater of (1) the net worth of Tenant immediately prior to such transfer or (2) the net worth of Tenant herein named on the date of this Lease, and (b) proof satisfactory to Landlord of such net worth shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction; (iii) any person or entity which acquires all of the assets of Tenant as a going concern of the business that is being conducted on the Premises (collectively, "Tenant Affiliate"), provided that such assignee assumes in full the obligations of Tenant under the Lease.

30. CONDEMNATION: If any part of the Premises shall be taken for any public or quasi-public use, under any statute or by right of eminent domain or private purchase in lieu thereof, and only a part thereof remains which is susceptible of occupation hereunder, this Lease shall as to the part so taken, terminate as of the day before title shall vest in the condemnor or purchase ("Vesting Date"), and the Base Monthly Rent payable hereunder shall be adjusted so that the Tenant shall be required to pay for the remainder of the Lease Term only such portion of such Base Monthly Rent as the value of the part remaining after such taking bears to the value of the entire Premises prior to such taking; but in such event Landlord and Tenant shall have the option to terminate this Lease as of the Vesting Date. If all of the Premises, or such part thereof be taken so that the remaining portion is unusable for Tenant's business therein, as reasonably determined by Tenant, Tenant may terminate this Lease as of Vesting Date. Landlord shall be entitled to any award paid for if the Premises is wholly or partially condemned, except that Tenant shall have the right to receive from either the condemning authority or Landlord, as applicable, all proceeds and other compensation received in connection with condemnation to the extent paid for (i) any Tenant Improvements or Alterations made by or at the expense of Tenant; (ii) Tenant's loss of goodwill; (iii) Tenant's relocation costs; and (iv) Tenant's loss of business and business interruption. Tenant hereby waives the provisions of California Code of Civil Procedures Section 1265.130 and any other similarly enacted statute are waived by Tenant and the provisions of this Article 30 shall govern in the case of such destruction.

31. EFFECTS OF CONVEYANCE: The term "Landlord" as used in this Lease, means only the owner for the time being of the Premises so that, in the event of any sale or other conveyance of the Premises, or in the event of a master lease of the Premises, the Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of the "Landlord" hereunder, but only so long as the new Landlord expressly assumes in writing all the obligations of Landlord under this Lease, and delivers to Tenant a written agreement by which the new Landlord assumes such obligations, and it shall be deemed and construed, without further agreement between the parties

and the purchaser at any such sale, or the master tenant of the Premises, that the purchaser or master tenant of the Premises has assumed and agreed to carry out any and all covenants and obligations of the Landlord hereunder arising after the effective date of the transfer to the new Landlord. Such transferor shall transfer and deliver Tenant's security deposit to the purchaser at any such sale or the master tenant of the Premises, and thereupon the such transferor shall be discharged from any further liability in reference thereto.

32. SUBORDINATION: Simultaneously with the execution of this Lease, Landlord shall deliver to Tenant a non-disturbance agreement from Landlord's existing lender or lenders, if any, in form and substance acceptable to Tenant, by which such lender or lenders agree not to disturb Tenant's possession of the Premises so long as Tenant is not in material default of the terms of this Lease beyond any applicable cure period at the time such lender or lenders foreclose on the Premises. This Lease shall be subordinate to any future ground lease, deed of trust, or other hypothecation for security only so long as Landlord delivers to Tenant prior to effective of such subordination a written non-disturbance agreement, in form and substance acceptable to Tenant, by which such Lender or other party agrees not to disturb Tenant's possession of the Premises if Tenant is not in material default of Tenant's obligations under this Lease beyond any applicable cure period at the time such party becomes the fee owner of the Premises. Subject to the above, in the event Landlord notifies Tenant in writing, this Lease shall be subordinate to any ground Lease, deed of trust, or other hypothecation for security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to renewals, modifications, replacement and extensions thereof. Tenant agrees to promptly execute and deliver any documents which may be required to effectuate such subordination.

33. WAIVER: The waiver by Landlord or Tenant of any breach of any term, covenant or condition, herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such proceeding breach at the time of acceptance of such rent. No payment by Tenant or receipt by Landlord of a lesser amount than any installment of rent due shall be deemed to be other than payment on account of the amount due. No delay or omission in the exercise of any right or remedy by Landlord or Tenant shall impair such right or remedy or be construed as a waiver thereof by the non-defaulting party. No act or conduct of Landlord, including, without limitation, the acceptance of keys to the Premises, shall constitute acceptance of the surrender of the Premises by Tenant before the Expiration Date (only written notice from Landlord to Tenant of acceptance shall constitute such acceptance of surrender of the Premises). Landlord's consent to or approval of any act by Tenant which require Landlord's consent or approvals shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant.

34. HOLDING OVER: Any holding over after the termination or Expiration Date, shall be construed to be a tenancy from month to month, terminable on thirty (30) days written notice from either party, and Tenant shall pay Base Monthly Rent to Landlord at a rate equal to one hundred twenty five percent (125%) of the Base Monthly Rent due in the month preceding the termination or Expiration Date for the first two (2) months of any hold over and one hundred fifty percent (150%) of the Base Monthly Rent thereafter plus all other amounts payable by Tenant under this Lease. Any holding over shall otherwise be on the terms and conditions herein specified, except those provisions relating to the Lease Term and any options to extend or renew, which provision shall be of no further force and effect following the expiration of the applicable exercise period.

35. SUCCESSORS AND ASSIGNS: The covenants and conditions herein contained shall, subject to the provisions of Article 29, apply to and bind the heirs, successors, executors, administrators and assigns of all the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

36. ESTOPPEL CERTIFICATES: Tenant shall at any time during the Lease Term, within ten (10) days following receipt of written notice from Landlord, respond to any request by Landlord for a statement in writing certifying (i) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification); (ii) the date to which the rent and other charges are paid in advance, if any; (iii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder or specifying such defaults if they are claimed; and (iv) such other information as Landlord may reasonably request. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises. Tenant also agrees to provide the most current three (3) years of audited financial statements within five (5) days of a request by Landlord for Landlord's use in financing the Premises with commercial lenders.

37. OPTION TO EXTEND THE LEASE TERM:

A. Grant and Exercise of Option: Landlord hereby grants to Tenant, upon and subject to the terms and conditions set forth in this Article 37 four (4) options (the "Options") to extend the Lease Term for an additional term (the "Option Term"), each Option Term shall be for a period of sixty (60) months. Each such Option shall be exercised, if at all, by written notice to Landlord no earlier than the date that is twenty four (24) months prior to the Expiration Date but no later than the date that is twelve (12) months prior to the Expiration Date. Thirteen (13) months prior to the Expiration Date Landlord shall provide Tenant with a written notice of the fact that the Option will expire in thirty (30) days. If Tenant exercises the Option, each of the terms, covenants and conditions of this Lease except this Article shall apply during the Option Term as though the expiration date of the Option Term was the date originally set forth herein as the Expiration Date, provided that the Base Monthly Rent to be paid by Tenant during the Option Term shall be the greater of (i) the Base

Monthly Rent payable on the Commencement Date, or (ii) ninety five percent (95%) of the Fair Market Rental, as hereinafter defined, for the Premises for the Option Term. Anything contained herein to the contrary notwithstanding, if Tenant is in monetary or material non-monetary default beyond any applicable cure period under any of the terms, covenants or conditions of this Lease either at the time Tenant exercises the Option or at any time thereafter prior to the commencement date of the Option Term, Landlord shall have, in addition to all of Landlord's other rights and remedies provided in this Lease, the right to terminate the Option upon notice to Tenant, in which event the expiration date of this Lease shall be and remain the Expiration Date or the expiration of the then relevant Option Term. As used herein, the term "Fair Market Rental" for the Premises shall mean the rental and all other monetary payments including any escalations and adjustments thereto (including without limitation Consumer Price Indexing) then being obtained for leases of space comparable in age and quality to the Premises in the locality of the Building that Landlord could obtain during the Option Term from a third party desiring to lease the Premises for the Option Term based upon the current use and other potential uses of the Premises. The appraisers shall be instructed that the foregoing five percent (5%) discount is intended to reduce comparable rents which include (i) brokerage commissions, (ii) tenant improvement allowances, and (iii) vacancy costs, to account for the fact that Landlord will not suffer such costs in the event Tenant exercises its Option. The Fair Market Rental shall specifically exclude any additional rental attributable to the value of the Tenant Improvements or Alterations paid for by Tenant.

B. Determination of Fair Market Rental: If Tenant exercises the Option, Landlord shall send to Tenant a notice setting forth the Fair Market Rental for the Premises for the Option Term within thirty (30) days of Tenant's exercise of the Option. If Tenant disputes Landlord's determination of the Fair Market Rental for the Option Term, Tenant shall, within thirty (30) days after the date of Landlord's notice setting forth the Fair Market Rental for the Option Term, send to Landlord a notice stating that Tenant either (i) elects to terminate its exercise of the Option, in which event the Option shall lapse and this Lease shall terminate on the Expiration Date, or (ii) disagrees with Landlord's determination of Fair Market Rental for the Option Term and elects to resolve the disagreement as provided in Article 37.C below. If Tenant does not send to Landlord a notice as provided in the previous sentence, Landlord's determination of the Fair Market Rental shall be the basis for determining the Base Monthly rent to be paid by Tenant hereunder during the Option Term. If Tenant elects to resolve the disagreement as provided in Article 37.C below and such procedures shall not have been concluded prior to the commencement date of the Option Term, Tenant shall pay as Base Monthly Rent to Landlord the rent due hereunder during the month preceding the Expiration Date. If the amount of Fair Market Rental as finally determined pursuant to Article 37.C below is greater than Landlord's determination, Tenant shall pay to Landlord the difference between the amount paid by Tenant and the he rent due hereunder during the month preceding the Expiration Date within thirty (30) days after the determination. If the Fair Market Rental as finally determined in Article 37.C below is less than Landlord's determination, the difference between the amount paid by Tenant and the Fair Market Rental as so determined in

Article 37.C below shall be credited against the next installments of rent due from Tenant to Landlord hereunder.

C. Resolution of a disagreement over the Fair Market Rental: Any disagreement regarding the Fair Market Rental shall be resolved as follows:

1. Within thirty (30) days after Tenant's response to Landlord's notice to Tenant of the Fair Market Rental, Landlord and Tenant shall meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement.
2. If within the thirty (30) day period referred to in (i) above, Landlord and Tenant can not reach agreement as to the Fair Market Rental, they shall each select one appraiser to determine the Fair Market Rental. Each such appraiser shall arrive at a determination of the Fair Market Rental and submit their conclusions to Landlord and Tenant within thirty (30) days after the expiration of the thirty (30) day consultation period described in (i) above.
3. If only one appraisal is submitted within the requisite time period, it shall be deemed to be the Fair Market Rental. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than ten percent (10%) of the higher of the two, the average of the two shall be the Fair Market Rental. If the two appraisals differ by more than ten percent (10%) of the higher of the two, then the two appraisers shall immediately select a third appraiser who shall within thirty (30) days after his or her selection shall select one of the two (2) existing determinations of Fair Market Rental as correct. This third appraiser's conclusion shall be the Fair Market Rental.
4. All appraisers specified pursuant to this Article shall be members of the American Institute of Real Estate Appraisers with not less than five (5) years experience appraising office and industrial properties in the Santa Clara Valley. Each party shall pay the cost of the appraiser selected by such party and one-half of the cost of the third appraiser.

38. Tenant's Right of First Refusal:

A. Grant. Landlord hereby grants to Tenant a right of first refusal during the Term of this Lease and any extension thereof to purchase the Premises ("Right of First Refusal to Purchase").

B. Covenants of Landlord. Landlord hereby covenants and agrees with Tenant that if, during the Term of the Lease, Landlord shall receive or solicit a bona fide offer from a prospective buyer to purchase either the Premises, Landlord shall furnish Tenant with a copy of the proposed contract and notify Tenant of the intention of Landlord to accept the same (the "Notice of Intention to Sell"). Such Notice of Intention to Sell shall contain all material business terms on which

Landlord intends to sell the Premises. Landlord shall not sell the space in question to anyone other than Tenant without first providing Tenant the opportunity to buy the space in question upon the same terms and conditions described in the Notice of Intention to Sell.

C. Exercise of Tenant's Right of First Refusal to Purchase. Provided that Tenant is not in default under the terms and conditions of this Lease beyond any applicable grace periods, Tenant may exercise Tenant's Right of First Refusal to Purchase by providing Landlord with written notice thereof within fifteen (15) days of Tenant's receipt of the Notice of Landlord's Intention to Sell. If Tenant does not exercise its Right of First Offer to Purchase within said fifteen (15) day period, then Landlord shall be relieved of Landlord's obligation to offer the space identified in the Notice of Intention to Sell to Tenant, except as provided for in Section 38.E below.

D. Terms for Right of First Refusal to Purchase. In the event that Tenant exercises Tenant's Right of First Refusal to Purchase, Tenant's purchase shall be on all of the same terms and conditions as are offered to a bona-fide third-party purchaser of the space identified in the Notice of Intention to Sell.

E. Continuing Right. In no event shall Tenant's failure to exercise its Right of First Refusal to Purchase be deemed a waiver or relinquishment by Tenant of Tenant's Right of First Refusal to Purchase should (i) the space identified in the Notice of Intention to Sell be offered for sale to a potential purchaser other than the purchaser specified in the Notice of Landlord's Intention to Sell during the Term of this Lease or any extension thereof, or (ii) the space identified in the Notice of Landlord's Intention to Sell be offered for sale to any purchaser on terms different than those specified in the Notice of Landlord's Intention to Sell during the Term of this lease or any extension thereof.

F. Exclusive Nature of Option. Landlord represents and warrants to Tenant that no party other than Tenant has any option, right of first offer or right of first refusal to purchase the Premises. Landlord hereby covenants to Tenant that Landlord shall not grant an option to purchase, right of first offer or right of first refusal to purchase the Premises during the Term of this Lease or any extension thereof.

G. Successors and Assigns. Except as provided in this paragraph 38.G, this Right of First Refusal to Purchase shall be binding on the successors and assigns of Landlord and Tenant. This Right of First Refusal shall not specifically not apply to (but shall survive the same and be binding upon any purchaser or successor of such sale or foreclosure) (i) any transfer of ownership of the Premises by a judicial foreclosure sale or sale pursuant to a power of sale provision in any relevant deed of trust or mortgage lien, transfers of the Building, or (ii) a "Sobrato Family Transfer". A Sobrato Family Transfer shall be a transfer of the Premises to (i) John A. Sobrato and/or John M. Sobrato (individually and collectively "Sobrato"), (ii) any immediate family member of Sobrato, (iii)

any trust established, in whole or in part, for the benefit of Sobrato and/or any immediate family member of Sobrato, (iv) any partnership in which Sobrato or any immediate family member, either directly or indirectly (e.g., through a partnership or corporate entity or a trust) retains a general partner interest, and/or (v) any corporation under the control, either directly or indirectly, by Sobrato or any immediate family member of Sobrato.

39. OPTIONS: Except with respect to any Tenant Affiliate, all Options provided Tenant in this Lease are personal and granted to original Tenant and are not exercisable by any third party should Tenant assign or sublet (except for any assignment permitted by the third to last paragraph of Article 29) all or a portion of its rights under this Lease, unless Landlord consents to permit exercise of any option by any assignee or subtenant, in Landlord's sole discretion. In the event that Tenant hereunder has any multiple options to extend this Lease, a later option to extend the Lease cannot be exercised unless the prior option to extend has been so exercised.

40. QUIET ENJOYMENT: Landlord covenants with Tenant for itself and Landlord's successors that so long as no Event of Default on the part of Tenant has occurred hereunder, (i) Tenant shall and may peaceably and quietly have, hold and enjoy the Premises for the Term of this Lease, and any renewals or extensions thereof; and (ii) neither Landlord, nor any Party claiming under or through Landlord, shall disturb the use or the occupancy of the Premises by Tenant.

41. BROKERS: Landlord and Tenant each warrants and represents for the benefit of the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, except for CB Madison, and that it knows of no other real estate broker or agent who is or might be entitled to a real estate brokerage commission or finder's fee in connection with this Lease. Each party shall indemnify and hold harmless the other from and against any and all liabilities or expenses arising out of claims made by any broker (other than CB Madison) or individual for commissions or fees resulting from the actions of the indemnifying party in connection with this Lease.

42. LANDLORD'S LIABILITY: If Tenant should recover a money judgment against Landlord arising in connection with this Lease, the judgment shall be satisfied only out of Landlord's interest in the Premises including the improvements and real property and neither Landlord or any of its partners, officers, directors, agents, trustees shareholders or employees shall be liable personally for any deficiency. And furthermore, Tenant expressly waives any and all rights to proceed against the individual partners or the officers, directors by shareholders of any corporate partner, except to the extent of their interest in said limited partnership.

Notwithstanding the foregoing, the following shall apply with respect to claims by Tenant directly resulting from any and all defaults by Landlord with respect to any of its obligations under

(i) Section 18 with respect to Hazardous Materials, or (ii) Section 28 with respect to destruction to the Premises (collectively, the “Special Defaults”). In the event of any Special Defaults, Tenant shall be entitled to seek recourse against any assets of Landlord, and the recourse of Tenant against Landlord for any Special Default shall not be limited to Landlord’s interest in the Premises and the rents and other forms of income originating therefrom.

43. AUTHORITY OF PARTIES: Landlord and Tenant represents and warrants to each other that it is duly formed and in good standing and is duly authorized to execute and deliver this Lease on behalf of said corporation or partnership, as relevant, in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the by-laws of said corporation, and that this Lease is binding upon said corporation or partnership, as relevant in accordance with its terms. At either party’s request, the other party shall provide the requesting party with corporate resolutions or other proof in a form acceptable to the requesting party, authorizing the execution of the Lease.

44. TRANSPORTATION DEMAND MANAGEMENT PROGRAMS: Should a government agency or municipality require Landlord to institute TDM (Transportation Demand Management) facilities and/or program, Tenant hereby agrees that the cost of TDM imposed facilities required on the Premises, including but not limited to employee, showers, lockers, cafeteria, or lunchroom facilities, shall be included as Tenant Improvement Costs (unless such costs qualify for amortization pursuant to Article 17) and any ongoing costs or expenses associated with a TDM program, such as an on-site TDM coordinator, which are required for the Premises and not provided by Tenant shall be provided by Landlord with such costs being included as additional rent and reimbursed to Landlord by Tenant.

45. DISPUTE RESOLUTION: Except for the failure by Tenant to timely pay the Base Monthly Rent, any controversy, dispute, or claim of whatever nature arising out of, in connection with, or in relation to the interpretation, performance or breach of this agreement, including any claim based on contract, tort, or statute, shall be resolved at the request of any party to this agreement through a two-step dispute resolution process administered by JAMS or another judicial and mediation service mutually acceptable to the parties involving first mediation, followed, if necessary, by final and binding arbitration administered by and in accordance with the then existing rules and practice of the judicial and mediation service selected, and judgment upon any award rendered by the arbitrator(s) may be entered by any State or Federal Court having jurisdiction thereof.

46. MISCELLANEOUS PROVISIONS:

A. Rent: All monetary sums due from Tenant to Landlord under this Lease, including, without limitation those referred to as “additional rent”, shall be deemed to be rent.

B. Performance by Landlord: If Tenant fails to perform any obligation required under this lease or by law or governmental regulation and Tenant is not disputing such law or governmental regulation in accordance with the terms of this Lease, Landlord, in its sole discretion may without notice and without releasing Tenant from its obligations hereunder or waiving any rights or remedies, perform such obligation, in which event Tenant shall pay Landlord as additional rent all sums reasonably paid by Landlord in connection with such substitute performance including interest as provided in Article 48.C below within thirty (30) days following Landlord's written notice for such payment.

C. Interest: All rent due hereunder (but not late charges thereon), if not paid when due, shall bear interest at the reference rate of Union Bank plus two percent (2%) accruing from the date due until the date paid to Landlord.

D. Rights and Remedies: All rights and remedies hereunder are cumulative and not alternative to the extent permitted by law and are in addition to all other rights and remedies in law and in equity.

E. Survival of Indemnities: All indemnification, defense, and hold harmless obligations of Landlord and Tenant under this Lease shall survive the expiration or sooner termination of the Lease for a period of four (4) years.

F. Severability: If any term or provision of this Lease is held unenforceable or invalid by a court of competent jurisdiction, the remainder of the Lease shall not be invalidated thereby but shall be enforceable in accordance with its terms, omitting the invalid or unenforceable term.

G. Choice of Law: This Lease shall be governed by and construed in accordance with California law. Venue shall be Santa Clara County.

H. Time: Time is of the essence hereunder.

I. Entire Agreement: This instrument contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any other manner other than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

J. Representations: Tenant acknowledges that neither Landlord nor any of its employees or agents have made any agreements, representations, warranties or promises with respect to the demised Premises or with respect to present or future rents, expenses, operations, tenancies or any other matter. Except as herein expressly set forth herein, Tenant relied on no

statement of Landlord or its employees or agents for that purpose.

K. Headings: The headings or titles to the Articles of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part thereof.

L. Exhibits: All exhibits referred to are attached to this Lease and incorporated by reference.

M. Approvals: With respect to any consent of Landlord which Tenant may request pursuant to the terms of this Lease, such consent shall not be unreasonably withheld or delayed by Landlord. If Landlord fails to grant or withhold such requested consent within five (5) business days after request by Tenant, such consent shall be deemed granted.

N. Recordation. Within twenty (20) days following the execution of this Lease, both Landlord and Tenant shall execute, acknowledge and cause to be recorded in the Official Records of County of Santa Clara, California a short form memorandum of this Lease in form reasonably acceptable to Landlord and Tenant.

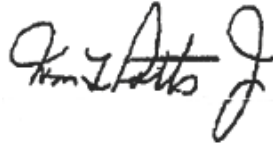
IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the day and year first above written.

Landlord: Sobrato Development Cos. #871 a California
Limited Partnership

Tenant: Komag Incorporated
a Delaware Corporation



By: _____
Its: GP.



By: _____
Its: SVP, CFO

EXHIBIT A - Premises

Total	2,000,000	90'
Building 10	1,000,000	45'
Building 11	1,000,000	45'

Building 11	1,000,000	45'
Building 10	1,000,000	45'

Building 10	1,000,000	45'
Building 11	1,000,000	45'

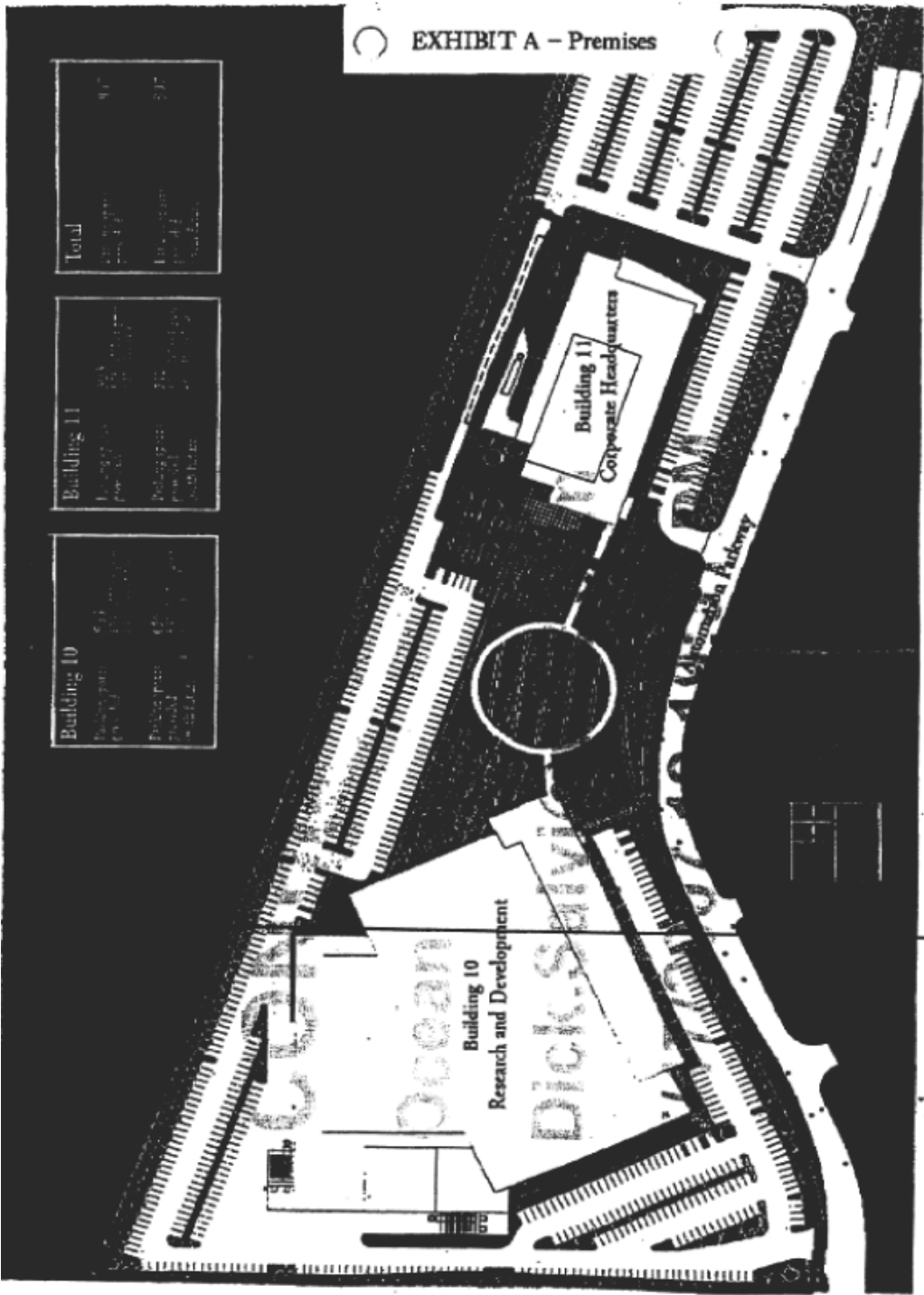


EXHIBIT “B” — Formula for Determination of Base Monthly Rent

After receipt of the final pricing for the Building Shell, Landlord shall determine Total Project Costs (as defined below) based on competitive bids. During this period Landlord shall also solicit permanent loan quotes from institutional lenders to determine the best available financing. Based on these inputs Landlord shall then apply the following formula to determine the Base Monthly Rent due under this Lease.

Base Monthly Rent shall be equal to one hundred twenty percent of (i) the product of the (i) Total Project Costs as defined below and (ii) the best non-participating ten (10) year fixed rate permanent loan constant available prior to the start of construction of the Option Building. The determination of which loan comprises the best available financing shall be made in good faith by both Landlord and Tenant. The parties acknowledge that it is their current intention that such amortization schedule shall be for a minimum period of twenty (20) years and Landlord shall use its best efforts to obtain such financing.

Total Project Costs shall be equal to the sum of (i) the value of the land based on a land value of Nine and 90/100 Dollars (\$9.90) per square foot, (ii) the Building Shell Allowance, (iii) fees for building permits, licenses, inspection, utility connections or extensions, and any other fees imposed by governmental entities, (iv) fees of engineers, architects, consultants and others providing professional services in connection with the construction of the Building, (v) construction loan interest paid by Landlord including interest on Landlord’s equity with respect to the construction of the Building, calculated at the reference rate charged by Union Bank plus one percent (1%), (vi) loan fees payable for the construction and /or permanent loan for the Building (vii) real property taxes and assessments levied against the Property during the period the Building is constructed, (viii) liability and builders risk insurance premiums paid by Landlord with respect to the construction of the Building, and (ix) real estate leasing commissions or fees payable by Landlord with respect to the Building.

For example, if Total Project Costs were \$14,000,000, and Landlord was able to obtain a 7.75% loan with a 20 year amortization, the Base Monthly Rent would be 120% X (\$14,000,000 X .008209), or \$137,911.

EXHIBIT "C" — Shell Plans and Specifications

(sheet references to be attached)

EXHIBIT "D" — Building Shell Definition

The Building Shell includes the following items:

1. Site Work

- a. Asphalt concrete paving, wheel stops, and striping.
- b. Concrete sidewalks, curbs, gutter, driveway, approaches, and planter walls.
- c. Landscaping, landscape lighting, waterscape, and irrigation.
- d. Underground utilities — water, gas, fire line, sanitary line (including pump station if required), site storm drainage system, transformers and primary and secondary electrical lines stubbed into building. The routing of the under slab utilities shall be done as part of the Building Shell construction if the location of the lines are determined prior to the pouring of the floor slab.
- e. Service area of approximately 12,500 SF including the mezzanine. The Building Shell shall include the pad of such area and all structures related to the tank farm shall be considered Tenant Improvements.
- f. Offsite improvement work required by the City of San Jose to obtain building permits.

2. Building Structure

Includes all elements necessary to provide for a completely waterproof Building Shell including but not limited to:

- a. Concrete foundation and slab on grade including all reinforcing steel and wire mesh including four loading docks.
- b. Structural steel columns and beams.
- c. Steel joist and girder second floor system with concrete and metal deck (if multi-story building).
- d. Wood panelized glulam roof structure or steel frame with metal deck and rigid insulation with fiberglass built-up roofing including roof drainage plumbing.
- e. Glass, glazing and perimeter roll up or hollow metal doors including normal passage hardware.
- f. Concrete tilt up or plaster on metal stud framed exterior walls.
- g. Exterior painting.
- h. All city permits, fees, and taxes, connection charges related to the Building Shell construction.
- i. Main fire sprinkler grid.
- j. All architectural and engineering costs related to the design of the Building Shell.

EXHIBIT “E” — Tenant Improvement Plans and Specifications
(sheet references to be attached)

EXHIBIT "F" — Tenant's Trade Fixtures

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EXHIBIT "G" — Fee Agreement

Tenant shall pay to Sobrato Construction Corporation, an affiliate of Landlord, a fee of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) as compensation to Landlord for its services as general contractor for the Building Shell and Tenant Improvements ("Construction Fee").

The Construction Fee shall be paid in monthly installments of One Hundred Fifty Thousand and No/100 Dollars (\$150,000.00). In no event, however, shall the final installment of the Construction Fee be due from Tenant until Substantial Completion of the Premises has occurred.

The Construction Fee includes the general conditions associated with the construction of the Building Shell and Tenant Improvements. It is agreed by the parties that the general conditions included in the Construction Fee consist of the following costs: (i) all project management and scheduling personnel costs, (ii) field office expenses including set-up and rent, janitorial, security and furniture, (iii) general office expenses including supplies, computers, postage, telephone, reproduction and copying, travel expense, subsistence, drinking water, etc., (iv) management vehicles and fuel, (v) general safety costs including a safety engineer, flagman/traffic control, barricades and signs, protective equipment and first aid supplies, and fire protection, (vi) temporary services including temporary electrical (light strings, tempower boxes, cords, trailer office connection, light stands and transformer), utility costs/generator, water (installation, connection and utility), heating, ladders and stairs, and chemical toilets, (vii) field services such as janitorial, security, interim clean-up, debris boxes, project sign, (viii) worker/employee parking and drinking water, (ix) insurance (liability and building risk), (x) City Gross Receipts Tax, (xi) gas, oil, diesel fuel and lubrication for equipment owned by general contractor, and (xii) site conditions including temporary roads, staging and storage areas, site dewatering, winter protection and maintenance, site fencing, tree protection, dust control, tool shed, walkietalkies, etc.

**Sobrato
Development
Companies**



10600 N. De Anza Boulevard, Suite 200
Cupertino, CA 95014-2075
(408) 446-0700
FAX (408) 446-0583

FIRST AMENDMENT TO LEASE

This first amendment to lease ("Amendment") is made this 21st day of February, 1997 by and between Sobrato Development Company #960, a California Limited partnership having an address at 10600 N. De Anza Blvd., Suite 200, Cupertino, California 95014 ("Landlord") and Komag Incorporated, a Delaware corporation having its principal place of business at 275 S. Hillview Drive Milpitas, California 95035 ("Tenant").

WITNESSETH

WHEREAS Landlord and Tenant entered into a lease dated May 24, 1996 (the "Lease") for the building at 1710 Automation Parkway on that certain 12.64 acre site on the north side of Automation Parkway in San Jose ("Premises");

WHEREAS Sobrato Development Company #871 assigned its interest in the Lease to Landlord on June 6, 1996; and

WHEREAS effective the date of this Amendment, Landlord and Tenant wish to modify the Lease to set forth (i) the Commencement Date of the Lease, and (ii) the final Base Monthly Rent;

NOW, THEREFORE, in order to effect the intent of the parties as set forth above and for good and valuable consideration exchanged between the parties, the Lease is amended as follows:

1. Base Monthly Rent has been determined based on the formula contained in Exhibit "B" to be the sum of One Hundred Forty Four Thousand Eight Hundred Ten and No/100 Dollars (\$144,810.00).
 2. The Commencement Date of the Lease has been determined pursuant to Section 7.H of the Lease to be January 27, 1997.
 3. Except as hereby amended, the Lease and all of the terms, covenants and conditions thereof shall remain unmodified and in full force and effect. In the event of any conflict or inconsistency between the terms and provisions of this Amendment and the terms and provisions of the Lease, the terms and provisions of this Amendment shall prevail.
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IN WITNESS WHEREOF, the parties hereto have set their hands to this Amendment as of the day and date first above written.

Landlord

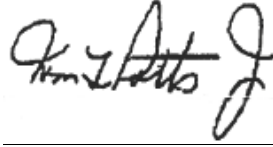
Sobrato Development Company #960,
a California limited partnership

Tenant

Komag Incorporated,
a Delaware corporation



By: _____
Its: General Partner



By: _____
Its: VP & CFO

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "SECOND AMENDMENT"), is made effective as of December 17, 2004, by and between the DIVCO WEST PROPERTIES, a Delaware limited liability company ("LANDLORD"), and Komag Incorporated, a Delaware corporation ("TENANT").

Recitals

A. Tenant and Landlord, as successor in interest to Sobrato Development Company #960, a California limited partnership, are parties to that certain Lease, dated as of May 24, 1996, as amended by that certain First Amendment To Lease, dated February 21, 1997 (as so modified, the "ORIGINAL LEASE"). Capitalized terms not defined in this Second Amendment shall have the meanings given them in the Original Lease. As used in this Second Amendment, "LEASE" shall mean the Original Lease, as amended by this Second Amendment.

B. Landlord and Tenant desire to amend the Original Lease, inter alia, to provide for (i) a change in the Base Monthly Rent, (ii) an extension of the term of the Original Lease, and (iii) certain changes in the Tenant's options under the Lease, all upon and subject to the terms and conditions set forth in this Second Amendment.

NOW THEREFORE, in consideration of, and incorporating, the foregoing recitals and the mutual agreements of the parties herein, Landlord and Tenant hereby agree as follows:

1. Expiration Date. For reference purposes under the Lease, the initial Term of the Lease shall expire on January 26, 2007. Notwithstanding such fact, the parties hereby agree that the term of the Lease shall be, and hereby is extended, such that the Expiration Date of the Lease, as defined in Section 4 of the Lease, shall be December 31, 2014.

2. Base Monthly Rent. Subject to the conditions precedent set forth in Paragraph 4 below but to be effective as of January 1, 2005 (the "EFFECTIVE DATE"), the Base Monthly Rent shall be changed to be as follows:

<u>Period</u>	<u>Monthly per rentable square foot rent</u>	<u>Base Monthly Rent</u>
1/1/2005-12/31/2005	\$ 0.0	\$ 0.0
1/1/2006-12/31/2008	\$0.90	\$169,472.70
1/1/2009-12/31/2011	\$1.39	\$261,741.17
1/1/2012-12/31/2014	\$1.49	\$280,571.47

3. Options. Sections 37.A and 37.B. of the Lease are hereby deleted and replaced with the following:

“A. Grant and Exercise of Option: Landlord hereby grants to Tenant, upon and subject to the terms and conditions set forth in this Article 37 two (2) successive and sequential options (the “Options”) to extend the Lease Term for an additional term (the “Option Term”), each additional Option Term shall be for a period of sixty (60) months. Each such Option shall be exercised, if at all, by written notice to Landlord no earlier than the date that is twenty four (24) months prior to the Expiration Date, as it may have been extended by the prior exercise of an Option, but no later than the date that is twelve (12) months prior to the Expiration Date, as it may have been extended. The due and valid exercise of the first such Option, shall be a condition to the exercise of the second such Option. Thirteen (13) months prior to the then applicable Expiration Date Landlord shall provide Tenant with a written notice of the fact that the Option will expire in thirty (30) days. If Tenant exercises any such Option, each of the terms, covenants and conditions of this Lease, except this Article 37, shall apply during the Option Term as though the expiration date of the Option Term was the date originally set forth herein as the Expiration Date, provided that the Base Monthly Rent to be paid by Tenant during the Option Term shall be the Fair Market Rental, as hereinafter defined, for the Premises during the Option Term. Anything contained herein to the contrary notwithstanding, if Tenant is in monetary or material non-monetary default beyond any applicable notice and cure period under any of the terms, covenants or conditions of this Lease at the time Tenant exercises the Option, Landlord shall have, in addition to all of Landlord’s other rights and remedies provided in this Lease, the right to terminate the Option upon written notice to Tenant, in which event the expiration date of this Lease shall be and remain the Expiration Date, without taking into consideration the attempted exercise of such Option. As used herein, the term “Fair Market Rental” for the Premises shall mean the base rental then being obtained for leases of space comparable in age, quality, location and amenities to the Premises in the locality of the Building that Landlord could obtain during the Option Term from a third party desiring to lease the Premises for the Option Term based upon the current use and other potential uses of the Premises. The Fair Market Rental shall specifically exclude any additional rental attributable to the value of the Tenant Improvements or Alterations paid for by Tenant and which may be removed by Tenant at the end of the term of the Lease and otherwise be adjusted to account for variations with respect to: (i) the length of the Option Term compared to the lease term of the Comparison Leases; (ii) rental structure, including, without limitation, rental rates per rentable square foot (including type, gross or net, and if gross, adjusting for base year or expense stop), additional rental, escalation provisions and all other payments and escalations; (iii) the size of the Premises compared to the size of the premises of the Comparison Leases; (iv) location, floor levels and efficiencies of the floor(s) for which the determination is being made; (v) free rent, moving expenses and other cash payments, allowances or other monetary concessions affecting the rental rate; and (vi) the age and quality of construction of the Building (including compliance with applicable codes on the applicable floors).

B. Determination of Fair Market Rental: If Tenant exercises the Option, Landlord shall send to Tenant a notice setting forth the Fair Market Rental for the Premises for the Option Term within thirty (30) days of Tenant’s exercise of the Option. If Tenant disputes Landlord’s

determination of the Fair Market Rental for the Option Term, Tenant shall, within thirty (30) days after the date of Landlord's notice setting forth the Fair Market Rental for the Option Term, send to Landlord a notice stating that Tenant either (i) elects to terminate its exercise of the Option, in which event the Option shall lapse and this Lease shall terminate on then applicable Expiration Date, or (ii) disagrees with Landlord's determination of Fair Market Rental for the Option Term and elects to resolve the disagreement as provided in Article 37.C below. If Tenant does not send to Landlord a notice as provided in the previous sentence, Landlord's determination of the Fair Market Rental shall be the basis for determining the Base Monthly Rent to be paid by Tenant hereunder during the Option Term. If Tenant elects to resolve the disagreement as provided in Article 37.C below and such procedures shall not have been concluded prior to the commencement date of the Option Term, Tenant shall pay as Base Monthly Rent to Landlord during such portion of the Option Term prior to the determination of the Fair Market Rental (the "Stub Period") the same Monthly Base Rent due hereunder during the month preceding the then applicable Expiration Date. If the amount of Fair Market Rental as finally determined pursuant to Article 37.C below is greater than the Base Monthly Rent being paid by Tenant during the Stub Period, Tenant shall pay to Landlord the difference between the amount paid by Tenant and the Fair Market Rental for the Stub Period as determined pursuant to Article 37.C within thirty (30) days after the determination of the Fair Market Rental. If the Fair Market Rental as finally determined in Article 37.C below is less than the Monthly Base Rent being paid during the Stub Period, the difference between the amount paid by Tenant and the Fair Market Rental as so determined in Article 37.C for the Stub Period below shall be credited against the next installments of rent due from Tenant to Landlord hereunder."

4. Condition Precedent. The effectiveness of this Second Amendment is conditioned upon Landlord acquiring the real property and improvements where the Premises are located from the present owner thereof (the "Closing"). In the event that the Closing does not occur on or before January 31, 2005, this Second Amendment shall be null and void and of no further force and effect and neither party shall have any obligation hereunder. In the event the Closing occurs after the Effective Date, then the reductions in Monthly Base Rent described above shall be not commence until the Closing actually occurs and the periods specified in paragraph 2 above shall not be otherwise extended.

5. No Assignment. Tenant represents and warrants to Landlord that it is the tenant under the Lease and that it has not assigned, encumbered, or agreed to assign or encumber its interest in whole or in part. Tenant also represents and warrants that as of the date that Tenant has executed this Second Amendment, there is no default on the part of Tenant under the Lease.

6. Authority. Each party represents and warrants that the execution and delivery of this Second Amendment and the performance by such party of its obligations hereunder have been duly authorized, that this Second Amendment constitutes the legal, valid and binding obligation of such party, that it has obtained all consents which may be required in connection with the Second Amendment and the performance of the obligations thereunder, and that the individuals executing this Second Amendment on its behalf have been authorized to execute and deliver this Second Amendment on behalf of such party and have the power to bind the party for whom he or she is signing.

7. Entire Agreement. This Second Amendment, together with the Original Lease contain the entire agreement of the parties hereto with respect to the subject matter hereof and may not be changed or terminated orally or by course of conduct.

8. Counterparts. This Second Amendment may be executed in counterparts, each of which shall be deemed an original as against the party whose signature is affixed thereto, and all of which together shall constitute but one and the same agreement.

9. Reaffirmation of Lease. Except as set forth in this Second Amendment, the Original Lease remains unchanged and, as modified by this Second Amendment, is in full force and effect. This Second Amendment shall be binding upon and inure to the benefit to the parties and their respective successors and assigns. All references in the Original Lease to "this Lease" shall mean the Original Lease as amended by this Second Amendment.

IN WITNESS WHEREOF, Landlord and Tenant have entered into and executed this Second Amendment, effective as of the Effective Date.

LANDLORD:
DIVCO WEST PROPERTIES, LLC,
a Delaware limited liability company

TENANT:
KOMAG INCORPORATED,
a Delaware corporation

By: _____
Title: _____

By: _____
Name: _____
Title: _____

By: _____
Title : _____

**FIRST AMENDMENT
TO CREDIT AGREEMENT**

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this “**Amendment**”) is dated as of November 5, 2007 and is entered into by and among **WESTERN DIGITAL TECHNOLOGIES, INC.**, a Delaware corporation (the “**Borrower**”), the financial institutions listed on the signature pages hereof (the “**Lenders**”), and **GOLDMAN SACHS CREDIT PARTNERS L.P.** (“**GSCP**”), as administrative agent (the “**Administrative Agent**”) for the Lenders, and is made with reference to that certain **CREDIT AGREEMENT** dated as of August 30, 2007 (as amended through the date hereof, the “**Credit Agreement**”) by and among Borrower, the Lenders, Citigroup Global Markets, Inc. and JPMorgan Chase Bank, N.A., as co-syndication agents, and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement after giving effect to this Amendment.

RECITALS

WHEREAS, Borrower has requested that the Required Lenders agree to amend certain provisions of the Credit Agreement as provided for herein; and

WHEREAS, subject to certain conditions, the Required Lenders are willing to agree to such amendment relating to the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION I. AMENDMENTS TO CREDIT AGREEMENT

1.1 Amendments to Section 1: Definitions.

The definition of “**Commitment Termination Date**” is hereby amended by deleting clause (i) thereof in its entirety and renumbering the remaining clauses (ii), (iii) and (iv) as clauses (i), (ii) and (iii), respectively.

SECTION II. CONDITIONS TO EFFECTIVENESS

This Amendment shall become effective as of the date hereof only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**First Amendment Effective Date**”):

A. Execution. Administrative Agent shall have received this Amendment, executed and delivered by a duly authorized signatory of each of Borrower, Administrative Agent and the Requisite Lenders.

B. Expenses. Administrative Agent shall have received all amounts due and payable on or prior to the First Amendment Effective Date, including, to the extent invoiced,

reimbursement or other payment of all out-of-pocket expenses required to be reimbursed or paid by Borrower hereunder or any other Loan Document.

C. Necessary Consents. The Borrower shall have obtained all material consents necessary or advisable in connection with the transactions contemplated by this Amendment.

SECTION III. REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, the Borrower represents and warrants to each Lender that the following statements are true and correct in all material respects:

A. Corporate Power and Authority. The Borrower has all requisite power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the “**Amended Agreement**”) and the other Loan Documents.

B. Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement and the other Loan Documents have been duly authorized by all necessary action on the part of the Borrower.

C. No Conflict. The execution and delivery by the Borrower of this Amendment and the performance by the Borrower of the Amended Agreement and the other Loan Documents do not and will not (i) violate (A) any provision of any law, statute, rule or regulation, or of the certificate or articles of incorporation or partnership agreement, other constitutive documents or by-laws of Borrower or any of its Subsidiaries or (B) any applicable order of any court or any rule, regulation or order of any governmental authority, (ii) conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any contractual obligation of the Borrower, where any such conflict, violation, breach or default referred to in clause (i) or (ii) of this Section IV.C., individually or in the aggregate could reasonably be expected to have a Material Adverse Effect, (iii) except as permitted under the Amended Agreement, result in or require the creation or imposition of any Lien upon any of the properties or assets of the Borrower, or (iv) require any approval of stockholders or partners or any approval or consent of any Person under any contractual obligation of the Borrower, except for such approvals or consents which will be obtained on or before the First Amendment Effective Date and except for any such approvals or consents the failure of which to obtain will not have a Material Adverse Effect.

D. Governmental Consents. No action, consent or approval of, registration or filing with or any other action by any governmental authority is or will be required in connection with the execution and delivery by the Borrower of this Amendment and the performance by Borrower of the Amended Agreement and the other Loan Documents, except for such actions, consents and approvals the failure to obtain or make could not reasonably be expected to result in a Material Adverse Effect or which have been obtained and are in full force and effect.

E. Binding Obligation. This Amendment and the Amended Agreement have been duly executed and delivered by the Borrower and each constitutes a legal, valid and binding obligation of the Borrower to the extent a party thereto, enforceable against the Borrower in

accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and except as enforceability may be limited by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

F. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Default.

SECTION IV. ACKNOWLEDGMENT AND CONSENT

Each Guarantor hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each Guarantor hereby confirms that each Loan Document to which it is a party or otherwise bound will continue to guarantee, to the fullest extent possible in accordance with the Loan Documents, the payment and performance of all Obligations under each the Credit Agreement.

Each Guarantor acknowledges and agrees that any of the Loan Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment.

Each Guarantor acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Guarantor is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Guarantor to any future amendments to the Credit Agreement.

SECTION V. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Amendment", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not constitute a waiver of any provision of, or operate as a waiver of any right,

power or remedy of the Administrative Agent, the Syndication Agents or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Headings. Section and Subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

C. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

D. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

WESTERN DIGITAL TECHNOLOGIES, INC.

By /s/ Raymond M. Bukaty
Name: Raymond M. Bukaty
Title: Senior Vice President, Administration,
General Counsel and Secretary

Guarantors:

WESTERN DIGITAL CORPORATION

By: /s/ Raymond M. Bukaty
Name: Raymond M. Bukaty
Title: Senior Vice President, Administration,
General Counsel and Secretary

WD MEDIA, INC.

By: /s/ Raymond M. Bukaty
Name: Raymond M. Bukaty
Title: Secretary

GOLDMAN SACHS CREDIT PARTNERS L.P.,
as Administrative Agent

By: /s/ Bruce Mendelsohn
Bruce Mendelsohn,
Authorized Signatory

Lenders

GOLDMAN SACHS CREDIT PARTNERS L.P.

By: /s/ Bruce Mendelsohn

Bruce Mendelsohn,
Authorized Signatory

CITICORP NORTH AMERICA, INC.

By /s/ Deborah Ironson

Name: Deborah Ironson

Title: Vice President

JPMORGAN CHASE BANK, N.A.

By /s/ David F. Gibbs

Name: David F. Gibbs

Title: Managing Director

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John F. Coyne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2007

/s/ John F. Coyne

John F. Coyne
Chief Executive Officer

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Timothy M. Leyden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2007

/s/ Timothy M. Leyden

Timothy M. Leyden
Executive Vice President and Chief Financial Officer

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the "Company"), hereby certifies that, to his knowledge:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 28, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2007

/s/ John F. Coyne
John F. Coyne
Chief Executive Officer

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the “Company”), hereby certifies that, to his knowledge:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 28, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2007

/s/ Timothy M. Leyden

Timothy M. Leyden
Executive Vice President and Chief Financial Officer