

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

FORM 10-K

(Mark One)

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

EXCHANGE ACT OF 1934

For the fiscal year ended June 27, 2003

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange
on which registered

Common Stock, \$.01 Par Value Per Share
Rights to Purchase Series A Junior
Participating Preferred Stock

New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of the close of business on August 29, 2003, the aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant was \$2.3 billion.

As of the close of business on August 29, 2003, 204,887,965 shares of common stock, par value \$.01 per share, were outstanding.

Documents Incorporated by Reference

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2003 fiscal year. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

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The Company has a 52 or 53-week fiscal year. The 2003, 2002 and 2001 fiscal years ended on June 27, June 28 and June 29 respectively, and consisted of 52 weeks each.

Unless otherwise indicated, references herein to specific years and quarters are to the Company's fiscal years and fiscal quarters, and references to financial information are on a consolidated basis.

The Company is a Delaware corporation that operates as the parent company of its hard drive business, Western Digital Technologies, Inc., which was formed in 1970.

The Company's principal executive offices are located at 20511 Lake Forest Drive, Lake Forest, California 92630. The Company's telephone number is (949) 672-7000 and its web site is <http://www.westerndigital.com>. The information on the Company's web site is not incorporated in this report.

Western Digital®, the Western Digital logo, WD Caviar®, WD Raptor™ and WD Protégé® are trademarks of Western Digital Technologies, Inc. and/or its affiliates. All other trademarks mentioned are the property of their respective owners.

PART I

Item 1. *Business*

General

Western Digital Corporation (the “Company” or “Western Digital”) designs, develops, manufactures and markets hard drives, one of the key components found in most computers and data storage subsystems. A hard drive is a device that stores data on one or more rotating magnetic disks to allow fast access to non-volatile data for computing needs. The Company’s hard drives are used in desktop personal computers, servers, network attached storage devices, video game consoles, digital video recording devices, and satellite and cable set-top boxes. The Company’s hard drive products currently include 1.0-inch high, 3.5-inch form factor drives with capacities ranging from 8 gigabytes (“GB”) to 250 GB, rotation speeds of 5400, 7200 and 10,000 revolutions per minute (“RPM”), and offer interfaces including Enhanced Integrated Drive Electronics (“EIDE”), Serial Advanced Technology Attachment (“SATA”), 1394/FireWire/i.Link™ and Universal Serial Bus (“USB”). The Company sells its products worldwide to computer manufacturers for inclusion in their computer systems or subsystems and to distributors, resellers and retailers. The Company’s hard drive products are currently manufactured in Malaysia and Thailand. For geographical financial data, see the Company’s Consolidated Financial Statements and Note 8 thereto included in this Annual Report on Form 10-K.

Industry

Desktop Personal Computer (“PC”) Market. According to TrendFOCUS, Inc. (“TrendFOCUS”) quarterly reports for 2003 and calendar year 2002, the desktop computer segment is the largest segment of the worldwide personal computer market, accounting for approximately 75% of global personal computer shipments in 2003. Approximately 90% of Western Digital’s hard drive unit shipments in 2003 were sold to this market, with the remaining shipments ultimately being used in other applications such as enterprise and consumer electronics markets. Desktop PC’s for entry level to experienced users are used in both commercial and consumer environments. The demand for both hard drive capacity and unit volume of hard drives has grown in part due to:

- continued improvements in desktop computing price to performance ratios;
- continued growth of the sub-\$600 PC market;
- the rapid accumulation of data resulting from the digitization of information previously stored in paper form;
- larger file sizes created by multimedia-intensive applications such as high-fidelity audio and video; and
- the availability of broadband Internet connectivity.

Desktop PC’s are used in a number of environments, ranging from homes to businesses and multi-user networks. Software applications are used on desktop PC’s primarily for word processing, spreadsheet, desktop publishing, database management, multimedia, entertainment and other related applications. Hard drives store these software applications and the data used by these software applications.

The industry continues to supply increased capacity per unit as users’ system needs increase and technological and manufacturing advances continue to make higher capacity drives more affordable. In the mainstream desktop PC market, the Company believes that the rate of increase in storage capacity per unit has decreased from historical norms. This may result in consumer demand for storage increases being balanced with the rate of improvement in the storage capacity per unit. In contrast to currently established markets, the emerging use of hard drives to record and play back audio and video content in the audio-video market is expected to create demand for storage capacity at a rate that may exceed the growth in demand for increased capacity in the desktop PC market.

Increased consolidation in the industry has resulted in highly efficient operations, improved economies of scale, continued intense competition and supply chain optimization, all of which tend to reduce the average selling price per hard drive unit. The Company believes that metrics such as customer quality, total cost of ownership, supply chain optimization and a stable supply of hard drives at attractive price levels will continue to be critical to its future success in serving both the audio-video and desktop PC markets.

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Since 1997, the PC industry has experienced decreasing average selling prices for desktop PC's, with large growth in both the sub-\$1,000 and sub-\$600 segments. TrendFOCUS estimates that approximately 82% of all desktop PC's sold in 2003 were priced below \$1,000, while 22% were priced below \$600. Manufacturers of these systems typically have a lower budget for both hard drive component cost and hard drive warranty expense and, consequently, the average selling price for hard drives to this segment of the desktop PC market has also declined.

The Company believes that three additional factors are impacting the growth of the PC market. First, the Company believes that first-time buyers of PC's in the United States and Western European PC markets are near saturation; therefore, new system sales in these regions are driven by replacement of older systems through technology obsolescence. Second, the Company believes that the cycle time in which existing PC owners replace their PC's has lengthened from two to three years to approximately three to five years. Third, uncertain economic conditions may have influenced potential customers to delay upgrading their overall information technology infrastructure. For an additional discussion of changes in the PC market, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

According to a March 2003 report published by TrendFOCUS, the worldwide desktop PC hard drive market (excluding emerging product markets) was forecasted to grow from approximately 155 million units in calendar year 2002 to approximately 197 million units in calendar year 2006, reflecting a compound annual growth rate of approximately 6%. Revenue growth is expected to be slightly lower due to the impact of price competition. TrendFOCUS forecasted that revenue from sales of desktop PC hard drives would grow from approximately \$11.9 billion in calendar year 2002 to approximately \$14.7 billion in calendar year 2006, reflecting a compound annual growth rate of approximately 5%.

Small Computer System Interface ("SCSI") Substitution Market. In certain circumstances, SCSI hard drives are being replaced by parallel Advanced Technology Attachment ("ATA") or SATA hard drives in enterprise storage applications. SATA is a relatively new interface technology that potentially improves the reliability, availability, scalability and performance attributes of parallel ATA for enterprise environments. TrendFOCUS estimates that in calendar year 2003, approximately 19% of the enterprise drive market will utilize ATA/SATA hard drives, and it forecasts that this amount will increase to 36% by 2006. Western Digital currently offers its WD Raptor™ hard drive, a 10,000 RPM enterprise-class drive with the SATA interface, and the WD Caviar® SATA hard drive, a 7200 RPM large capacity hard drive for both desktop and "near-line" enterprise storage demand.

Emerging Markets. Future demand growth for desktop computer hard drives also may be driven by new and emerging hard drive markets, such as the audio-video and video game console markets, and accelerated growth in new "near-line" markets, such as tape replacement. According to a March 2003 report published by TrendFOCUS, the non-desktop PC 3.5-inch form factor hard drive market was forecasted to grow from approximately 9 million units in calendar year 2002 to approximately 54 million units in calendar year 2006, reflecting a compound annual growth rate of approximately 57%. For an additional discussion of the non-desktop PC hard drive market, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

Audio-Video Market. Traditionally, home users have "time shifted" television content by recording onto video tape by using a video cassette recorder ("VCR") to view the content at a later time. This market is experiencing the introduction of an alternative to VCRs, where the video tape is being replaced by a hard drive that remains in the device. These hard drive-based recorders, commonly called personal video recorders ("PVRs") or digital video recorders ("DVRs"), offer the end-user additional features that are not available using VCRs. Hard drive technology makes it possible to simultaneously record and play back content; to pause and skip forward and backward, while recording during live broadcasts; and to rapidly access large amounts of audio-video content.

Because the market for audio-video products using hard drives has not yet developed, accurate forecasts for future growth remain challenging. For further discussion of the audio-video market, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

Video Game Market. According to TrendFOCUS, home electronic game devices that include hard disk drives and that are played on home entertainment systems had sales of approximately 7 million units in calendar year 2002, with an expected compound annual growth rate of approximately 29% through calendar year 2006. In calendar year 2001, Microsoft introduced the Xbox® video game system that uses a hard disk drive for game use. In addition, in May 2003, Sony announced plans to release the PSX™ product combining their PlayStation® 2 architecture with a 120 GB hard

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drive. Depending on the continued success of the current Xbox® video game system architecture and the acceptance of new combination devices such as Sony's PSX™ product, the video game market may continue to drive additional hard drive unit and revenue growth. For an additional discussion of the video game market, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

"Near-Line" Storage Market. Traditional disaster recovery and back-up of enterprise data has been done primarily on tape media used in tape and optical libraries, which are devices that enable access to large volumes of data. During the past few years, a new data back-up market opportunity has started to develop with EIDE/ATA hard drives augmenting tape media. This new trend, popularly referred to as "near-line" storage, has become an emerging technology due to both the ability of hard drives to back up data more quickly than tape solutions and the overall cost reduction trend in EIDE/ATA class hard drives which is progressing at a faster rate than tape media cost reduction trends. While an insignificant part of the overall market in 2003, the use of EIDE/ATA drives as back-up and disaster recovery technology has seen significant attention and product introductions.

Other Market Opportunities. The Company continuously evaluates opportunities to apply its data storage core competencies beyond traditional markets for hard drives. Currently, new business opportunities are evaluated for their direct impact on the Company's ability to increase the sale of hard drives. These opportunities include the design of hard drives for use in consumer devices, such as gaming devices, PVRs and DVRs, and for use in higher-end computer applications, such as servers and server appliances. The Company monitors the development of new markets related to data or content storage and storage management, the transfer, use and storage of digital content and the continuing development of networking protocols, and may from time to time offer new products or services to address appropriate new form factors, interfaces or markets. Conversely, depending on the development of such markets and the Company's ability to achieve its goals, the Company may, from time to time, withdraw from certain markets.

Products

The Company offers a broad line of hard disk drives designed for various market segments. Western Digital's products are marketed under the WD Caviar®, WD Protégé® and WD Raptor™ brand names, and each product line is designed for a particular market segment. The Company's WD Caviar and WD Protégé hard drive products are designed to serve distinct portions of the desktop PC market. WD Caviar hard drives are designed for the advanced performance segment of the desktop PC market and the entry-level server market, and WD Protégé hard drives are designed for the value segment of the desktop PC market, the entry-level PC's and the game console market. The WD Raptor hard drive is a SATA hard drive designed for the enterprise storage market and high-end desktop PC applications.

Desktop PC and Entry-Level Server Hard Drive Products. The WD Caviar and WD Protégé hard drive families currently consist of 1.0-inch high, 3.5-inch form factor products with capacities ranging from 8 GB to 250 GB and rotation speeds of 5400 and 7200 RPM. These products utilize either the EIDE interface or the SATA interface, providing high performance while retaining ease of use and overall low cost of connection. The type of EIDE interface currently used in a majority of the Company's hard drives is ATA/100, which signifies a burst data transfer rate of 100 megabytes per second. The SATA interface available in certain of the Company's WD Caviar Special Edition™ hard drives enables transfer rates as high as 150 megabytes per second. The Company also sells a line of external hard drives and related adapters which are designed to accommodate external storage interfaces including 1394/FireWire/i.Link and USB. The 1394/FireWire/i.Link interface is a high speed interface that can be used to add additional storage capacity to a computer.

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

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Consumer Electronics Products. The Company offers design capabilities and hard drive technologies for consumer applications; however, where practical, the Company intends to leverage its existing product line architectures for the various products in the consumer electronics market. The Company currently offers two hard drive products designed for use in consumer audio-video applications. It also offers products for the video game console market, such as the Microsoft® Xbox® video game system, and provides hard drives for other consumer electronics products.

Mobile Hard Drive Products. The mobile hard drive market includes such products as notebook PC's, portable digital music players, digital cameras, and personal digital assistants (PDAs). Hard drives used in these products typically include 2.5-, 1.8- or 1.0-inch form factor hard drives. Although the desktop PC market accounts for a majority of hard drive sales, unit shipments of hard drives for the mobile market are increasing. TrendFOCUS forecasts that unit sales of hard drives to the mobile market will grow from approximately 33 million in calendar year 2002 to approximately 53 million in calendar year 2006, reflecting a compound annual growth rate of approximately 13%. The Company continuously evaluates the mobile market and has moved from technology staging to active design work on a 2.5-inch form factor drive to target the mobile market.

Technology and Product Development

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

“Storage capacity” — the amount of data that can be stored on the hard drive — commonly expressed in gigabytes. As defined by the International Electrotechnical Commission (IEC), the leading international organization for worldwide standardization in electrotechnology, a gigabyte means one billion bytes. A byte is a digital character, typically comprised of eight bits. A bit is a binary digit, the smallest unit of information in a digital system.

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

“Internal data transfer rate” — the sustained rate at which data is transferred to and from the disk — commonly expressed in megabits per second. One megabit is equal to one million bits.

“Spindle rotational speed” — the nominal rotational speed of the disks inside the hard drive — commonly expressed in RPMs, revolutions per minute or latency. While the reference to spindle rotational speeds of 5400, 7200 and 10,000 RPMs is commonly used, in some cases these speeds are approximations.

“Acoustics” — the sound intensity that is emitted while the hard drive is operating — commonly expressed in decibels.

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

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

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

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Industry standard interfaces are utilized to allow the disk drive to communicate with the computer. Currently, the primary interface for desktop PC's is EIDE, and the primary interface for enterprise systems is SCSI. As computer performance continues to improve, the hard drive will need to deliver information faster than these interfaces can handle. The Company believes that the desktop PC industry plans to transition to higher speed interfaces, such as SATA, to handle the higher data transfer rates. The Company currently offers its WD Caviar Special Edition SATA hard drive, a 7200 RPM drive featuring capacities as large as 250 GB and designed for the high-end PC, workstation and entry-level server markets. The Company believes that SATA is also becoming a more popular interface in the enterprise market. Western Digital currently offers its WD Raptor hard drive, a 10,000 RPM enterprise-class drive with the SATA interface. The Company is working to develop additional products that will support these higher speed interfaces.

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

Head technology is one of the variables affecting areal density. Due to rapid technological changes, there have been several generations of head technology in a relatively short period of time. Currently, the desktop hard drive industry uses giant magnetoresistive head technology, which allows significantly higher storage capacities than the previously utilized thin-film head technology. All of the Company's hard drive product offerings currently employ giant magnetoresistive head technology.

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

For an additional discussion of technological innovations, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

Sales and Distribution

The Company sells its products globally to computer manufacturers, distributors, resellers, systems integrators and retailers. Manufacturers typically purchase components such as hard drives and assemble them into the computer systems they build. Distributors typically sell the Company's drives to small computer manufacturers, dealers, systems integrators and other resellers.

Manufacturers. Sales to manufacturers accounted for 52%, 54% and 48% of the Company's revenue in 2003, 2002 and 2001, respectively. During 2003, the Company's major computer manufacturer customers included Dell, E-Machines, Gateway, Hewlett-Packard, IBM, and Microsoft. Typically, revenue from sales to certain manufacturers account for more than 10% of the Company's revenue. For example, during 2003, sales to Dell and Hewlett-Packard (including sales to Compaq Computer after its merger with Hewlett-Packard in 2002) accounted for 20% and 13% of revenue, respectively. During 2002, sales to Dell and Hewlett-Packard (including sales to Compaq Computer prior to its merger with Hewlett-Packard in 2002) accounted for 15% and 13% of revenue, respectively. During 2001, sales to Dell and Compaq Computer accounted for 16% and 12% of revenue, respectively. The Company believes that its success depends on its ability to maintain and improve its strong relationships with the leading computer manufacturers. Since 2000, Western Digital, Maxtor (which merged with Quantum in 2000) and Seagate have had the highest market share with these manufacturers.

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In 2003, the top seven desktop personal computer manufacturers accounted for approximately 49% of all shipments of desktop PC's in the desktop PC market. As a result, maintaining customer satisfaction with these leading computer manufacturers is critical.

Computer manufacturers evaluate and select their hard drive suppliers based on a number of factors, including overall quality, storage capacities, performance characteristics, price, service and support, ease of doing business, and the supplier's long-term financial stability. They typically seek to qualify two or three providers for each generation of hard drives, and once a computer manufacturer has chosen its qualified hard drive vendors for a given product, it generally will purchase hard drives from those vendors for the life of that product. To achieve success with computer manufacturers' qualifications, a hard drive supplier must consistently offer hard drives featuring leading technology, quality and high capacity per disk. Suppliers must quickly achieve volume production of high quality and reliable hard drives. To quickly achieve high volume production, a hard drive supplier must have access to flexible, high-capacity, high-quality manufacturing capabilities.

Many of the Company's computer manufacturer customers (also referred to as original equipment manufacturers or "OEMs") have adopted just-in-time inventory management processes or supply chain business models that combine "build-to-order" (computer manufacturer does not build until there is a firm order) and "contract manufacturing" (computer manufacturer contracts assembly work to a contract manufacturer who purchases components and assembles the computer based on the computer manufacturer's instructions). For certain key OEMs the Company maintains a base stock of several weeks, on average, of current, finished goods inventory in facilities located adjacent to the OEM's operations. Inventory at these locations usually includes minor product customizations (such as labeling) for the related computer manufacturer. If subsequent to its initial order the computer manufacturer changes its requirements, inventory held at these facilities can be sold to other computer manufacturers or distributors "as is" or with minor modifications (such as a change in labeling) at little or no additional cost. Therefore, changes in an OEM's requirements have minimal impact on inventory valuation.

For an additional discussion of the need to adapt to customers' business models and maintain customer satisfaction, refer to Part II, Item 7, under the headings "Risk Factors That May Affect Future Results."

Distributors. The Company uses a select group of distributors to sell its products to small computer manufacturers, resellers, dealers and systems integrators. During 2003, the Company's major distributor customers included ASI, Digiland, eSys Distribution, Ingram Micro, Tech Data and TSR Silicon Resources. Distributors accounted for approximately 40%, 39% and 45% of the Company's revenue for 2003, 2002 and 2001, respectively. Distributors generally enter into non-exclusive agreements for specific territories with the Company for purchase and redistribution of product on a quick turnover basis. Blanket purchase orders are placed on a quarterly basis and shipments are made based upon a distributor's weekly authorization. The Company grants its distributors price protection, and certain distributors have limited rights to return product on an inventory rotation basis.

Retailers. The Company sells its retail-packaged products directly to a select group of major retailers such as computer superstores, warehouse clubs and computer electronics stores, and authorizes sales through distributors to smaller retailers. During 2003, major retailers to whom the Company sold directly included Best Buy, Circuit City, CompUSA, Fry's Electronics, OfficeMax and Sam's Club. Retailers accounted for approximately 8%, 7% and 7% of the Company's revenue for each of 2003, 2002 and 2001, respectively. The Company's current retail customer base is primarily in the United States, Canada and Europe. The retail channel complements the Company's other sales channels while helping to build brand awareness for the Company and its products. Retailers supply the aftermarket "upgrade" sector in which end-users purchase and install products to upgrade their computers. The Company grants certain of its retailers price protection and limited rights to return product on an inventory rotation basis. The Company also sells its retail-packaged products through the Internet, at its web site.

The Company maintains sales offices throughout North America, Eastern and Western Europe, the Middle East, Japan and Asia/ Pacific. Field application engineering is provided to strategic computer manufacturer accounts, and localized end-user technical support services are provided within the United States, Canada and Europe. The Company's localized end-user technical support is currently supplied by employees and a third party provider through telephone support, and via the Company's web site.

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The Company's international sales, which include sales to foreign subsidiaries of U.S. companies but do not include sales to U.S. subsidiaries of foreign companies, represented 59%, 50% and 47% of the Company's revenue for 2003, 2002 and 2001, respectively. Sales to international customers may be subject to certain risks not normally encountered in domestic operations, including exposure to tariffs, various trade regulations and fluctuations in currency exchange rates. See Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

For additional information concerning revenue recognition, sales by geographic region and significant customer information, see Notes 1 and 8 of the Notes to Consolidated Financial Statements.

The Company's marketing and advertising functions are performed both internally and through an outside firm. Advertising, worldwide packaging and marketing materials are targeted to various reseller and end-user segments. Western Digital utilizes both consumer media and, to a lesser extent, trade publications. The Company has programs under which qualifying distributors and retailers are reimbursed for certain marketing expenditures. Western Digital also maintains customer relationships by communicating with its resellers and providing end-users with pre-sale and post-sale information and support through its web site.

Competition

The Company competes primarily with manufacturers of 3.5-inch hard disk drives for desktop and server computers. The Company's competitors in the hard drive market include Fujitsu, Hitachi Global Storage Technologies (a joint venture formed in 2003 between Hitachi and IBM), Maxtor, Samsung and Seagate. Over the last three years, the hard drive industry has experienced consolidation, decreasing the number of major competitors. In particular, Maxtor acquired the hard drive business of Quantum, Fujitsu exited the desktop hard drive market, and IBM sold its hard drive business to Hitachi Global Storage Technologies.

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

Based on quarterly reports published by TrendFOCUS in 2003 and calendar year 2002, the Company believes that its market share of hard disk drives sold worldwide during 2003, based on units shipped, increased approximately 4%, from approximately 13% to approximately 17%. During 2003, Western Digital, Seagate, Maxtor, and Hitachi Global Storage Technologies (including sales by IBM and Hitachi prior to the formation of the joint venture in 2003) supplied approximately 85% of the total hard drive market.

The Company believes that there are no substantial barriers to entry for competitors to offer competing products. Therefore, the Company believes that it cannot differentiate its hard drive products solely on attributes such as storage capacity, buffer size or time-to-market. Accordingly, the Company also differentiates itself by designing and incorporating into its hard drives desirable product performance attributes, focusing on seek time, data transfer rates, intelligent caching, failure prediction, remote diagnostics, acoustics and data recovery. In addition, the Company emphasizes non-product related attributes, including rapid response with its computer manufacturer and distribution customers. Rapid response requires accelerated design cycles, customer delivery, production flexibility and timely service and support, which contribute to customer satisfaction. The Company also relies on the strength of the Western Digital brand name with value-added resellers and solution providers to whom the Company sells its hard drive products directly and indirectly. The Company believes that trust in a manufacturer's reputation and the establishment of strategic relationships have become important factors in the selection of a hard drive, particularly within such a rapidly changing technology environment.

The desktop hard drive market is characterized by several large competitors; therefore, it has traditionally been subject to periods of sustained and severe price competition, and factors such as time-to-market, time-to-volume and time-to-quality can have a pronounced effect on the success of any particular product.

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Advances in magnetic, optical or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than the Company's hard drive products. High-speed semiconductor memory could compete with the Company's hard drive products in the future. Semiconductor memory is much faster than magnetic disk drives, but currently is not competitive from a cost standpoint. Flash memory, a non-volatile semiconductor memory, is currently much more costly and, while it has higher "read" performance than hard drives, it has lower "write" performance. Flash memory could become competitive in the near future for applications requiring less storage capacity than that provided by hard drives.

For an additional discussion of competition, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

Service and Warranty

Western Digital generally warrants its newly manufactured hard drives against defects in materials and workmanship for a period of one to five years from the date of sale. The Company's warranty obligation is generally limited to repair or replacement of the hard drive. The Company has engaged third parties in Brazil, China, Germany, India, Korea, Russia, and Singapore to process and test returned hard drives for the Company's customers. In addition, the Company has contracted with a third party in Canada to process returned hard drives, and until July 2002 had engaged a third party to perform a similar service in the United States. In July 2002, Western Digital assumed the processing and testing of hard drives in the United States and terminated the outsourcing of this function to the third party. The Company has engaged third parties to refurbish or repair its products at service facilities located in Singapore and Germany.

Manufacturing

To be competitive, Western Digital must manufacture high quality hard drives with industry leading time-to-volume production at competitive unit costs. The Company strives to maintain manufacturing flexibility and high manufacturing yields, while insisting that its suppliers provide high-quality components at competitive prices. The critical elements of Western Digital's hard drive production are high volume, low cost assembly and testing, and establishment and maintenance of key vendor relationships. By establishing partner relationships with its strategic component suppliers, the Company believes it is able to access "best-of-class" manufacturing quality. In addition, the Company believes that its sourcing strategy currently enables it to have the business flexibility needed to select the highest quality low cost suppliers as product designs and technologies evolve.

Hard drive manufacturing is a complex process involving the assembly of precision components with narrow tolerances and extensive testing to ensure reliability. The assembly process occurs in a "clean room" environment which demands skill in process engineering and efficient utilization of the "clean room" layout in order to reduce the high operating costs of this manufacturing environment. The Company's clean room manufacturing process consists of modular production units, each of which contains a number of work cells.

The Company produces hard drives in two plants, one in Malaysia and one in Thailand. The Company continually evaluates its manufacturing processes in an effort to increase productivity, sustain and improve quality and decrease manufacturing costs. For example, in order to improve efficiency and reduce costs, the Company closed two manufacturing facilities in Singapore during 1999 and 2000 and relocated its hard drive production to Malaysia. During 2002, in response to an increase in demand and in order to capitalize on the local supplier base, the Company completed the acquisition of a Thailand manufacturing facility. The Company continually evaluates which steps in the manufacturing process would benefit from automation and how automated manufacturing processes can improve productivity and reduce manufacturing costs. Currently, the Company purchases all of the standard mechanical components and micro controllers for its hard drives from external suppliers.

In July 2003, the Company purchased substantially all of the assets of Read-Rite Corporation, formerly one of the Company's suppliers of heads, including its wafer fabrication equipment in Fremont, California and its slider fabrication facility in Bang Pa-In, Thailand. The Company uses these facilities to design and manufacture head gimbal assemblies ("HGAs") and head stack assemblies ("HSAs") for use in disk drives it manufactures.

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For an additional discussion of manufacturing, see Part II, Item 7, under the heading “Risk Factors That May Affect Future Results.”

Research and Development

The Company devotes substantial resources to development of new products and improvement of existing products. The Company focuses its engineering efforts on coordinating its product design and manufacturing processes in order to bring its products to market in a cost-effective and timely manner. Research and development expenses for continuing operations totaled \$135 million, \$120 million and \$113 million in 2003, 2002 and 2001, respectively.

For further discussion of product development, see Part II, Item 7, under the heading “Risk Factors That May Affect Future Results.”

Materials and Supplies

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

The Company acquires all of the components, except for a portion of its heads, for its products from third party suppliers. In general, the Company tries to have multiple suppliers for each of its component requirements. For example, during 2003 the Company bought giant magnetoresistive heads from ALPS Electric Co., Ltd., Read-Rite Corporation and TDK Corporation’s subsidiary, SAE Magnetics Ltd. In June 2003, Read-Rite commenced voluntary Chapter 7 bankruptcy proceedings. Western Digital subsequently purchased substantially all of the assets of Read-Rite, including its wafer fabrication equipment in Fremont, California and its slider fabrication facility located in Bang Pa-In, Thailand. The Company uses the assets purchased from Read-Rite to design and manufacture HGAs and HSAs for use in disk drives it manufactures. For additional information regarding the Read-Rite acquisition, see Note 11 of the Notes to Consolidated Financial Statements and Part II, Item 7, under the heading “Risk Factors That May Affect Future Results.” During 2003, the Company’s media requirements were purchased from several outside vendors including Fuji Electric Company Ltd., Komag, Showa Denko KK and Trace Storage Technology Corporation. The Company has a volume purchase agreement with Komag. Under this agreement, which expires in April 2005, the Company is obligated to purchase a substantial percentage of its requirements for hard disk media from Komag as long as Komag’s prices, technology and quality remain competitive.

Some custom integrated circuits are currently sole-sourced from STMicroelectronics, IBM and Marvell Semiconductor, Inc. The Company has entered into volume purchase agreements with IBM and Marvell to purchase read channel devices at negotiated quantities and prices. Because of their custom nature, these products require significant design-in periods and long lead times. There has been a trend in integrated circuit design toward increased integration of various separate circuits. The Company expects this trend to continue in the area of custom integrated circuits for hard drives.

For an additional discussion of component supplies, see Part II, Item 7, under the heading “Risk Factors That May Affect Future Results.”

Backlog

Historically, a substantial portion of the Company’s orders has been for shipments within 30 to 60 days of the placement of the order. The Company generally negotiates pricing, order lead times, product support requirements and other terms and conditions prior to receiving a computer manufacturer’s first purchase order for a product. Customers’ purchase orders typically may be canceled with relatively short notice to the Company, with little or no cost to the customer, or modified by customers to provide for delivery at a later date. In addition, certain of the Company’s sales to computer manufacturers are made under just-in-time delivery contracts that do not generally require firm order commitments by the customer until the time of sale. Instead, the Company receives a periodic forecast of requirements from the customer, and the customer is invoiced upon shipment of the product from the just-in-time warehouse.

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Therefore, backlog information as of the end of a particular period is not necessarily indicative of future levels of the Company's revenue and profit and may not be comparable to earlier periods.

Patents, Licenses and Proprietary Information

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

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

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

For additional discussion of intellectual property, see Part II, Item 7, under the heading "Risk Factors That May Affect Future Results."

Environmental Regulation

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

Employees

As of June 27, 2003, the Company employed a total of 11,508 employees worldwide. This represents an increase in headcount of approximately 21% since June 28, 2002 and an increase of approximately 46% since June 29, 2001. The increase is primarily the result of the purchase of a manufacturing facility in Thailand during 2002 in response to an increase in unit sales. The Company employed 1,158 employees in the United States, 7,475 employees in Malaysia, 2,764 employees in Thailand, 19 employees in Singapore and 92 employees at its international sales offices as of June 27, 2003. In addition, in connection with the acquisition of Read-Rite's assets in July 2003, as of August 29, 2003 the Company had hired 659 employees to work in its new Fremont, California facility and 4,074 employees to work in its newly acquired Bang Pa-In, Thailand facility. Combined, as of August 29, 2003, the Company employed a total of 16,241 employees worldwide.

Many of the Company's employees are highly skilled, and the Company's continued success depends in part upon its ability to attract and retain such employees. Accordingly, the Company offers employee benefit programs which it believes are at least equivalent to those offered by its competitors. Despite these programs, the Company has, along with most of its competitors, experienced difficulty at times in hiring and retaining certain skilled personnel. When the Company is unable to hire personnel in the ordinary course of business, it uses third parties to help satisfy its personnel needs. In addition, the Company has utilized consultants and contract personnel to fill these needs until full-time employees could be recruited. The Company has never experienced a work stoppage, none of its domestic employees are represented by a labor organization, and the Company considers its employee relations to be good.

Available Information

The Company maintains an Internet web site at <http://www.westerndigital.com>. The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on the Company's web site at <http://www.westerndigital.com>, free of charge, as soon as reasonably practicable after these

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reports are filed electronically with the Securities and Exchange Commission (the "SEC"). You can also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including Western Digital.

Item 2. Properties

The Company's corporate headquarters are located in Lake Forest, California. The Lake Forest facility includes three buildings, consisting of an aggregate of 187,673 square feet, and houses the Company's management, research and development, administrative and sales personnel. This facility is subject to a 10-year lease which expires in December 2010. The Company also leases one 129,600 square foot facility in San Jose, California for research and development activities. In addition, the Company currently leases one facility in Irvine, California, which consists of 59,213 square feet and is used as a processing center and for light manufacturing. The San Jose lease expires in July 2006 and the Irvine lease expires in September 2010. Western Digital owns a 633,077 square foot manufacturing facility in Kuala Lumpur, Malaysia and acquired a smaller 137,000 square foot manufacturing facility in Pathumthani, Thailand in January 2002. The Company also leases an aggregate of approximately 41,000 square feet of office space in various other locations throughout the world primarily for sales and technical support.

In connection with its acquisition of the assets of Read-Rite in July 2003, the Company will assume Read-Rite's lease of an approximately 181,000 square foot facility in Fremont, California that is used for wafer fabrication. The lease expires in February 2008. In addition, the Company acquired Read-Rite's former slider fabrication facility in Bang Pa-In, Thailand, consisting of three buildings with an aggregate of 433,744 square feet.

The Company believes its present facilities are adequate for its current needs, although the process of upgrading its facilities to meet technological and market requirements is expected to continue. New manufacturing facilities generally can be developed and become operational within approximately nine to eighteen months should the Company require such additional facilities.

Item 3. Legal Proceedings

See Part II, Item 8, Notes to Consolidated Financial Statements, Note 5.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

Executive Officers of the Registrant

The names, ages and positions of all of the executive officers of the Company as of August 29, 2003 are listed below, followed by a brief account of their business experience during the past five years. Executive officers are normally elected annually by the Board of Directors at a meeting of the directors immediately following the Annual Meeting of Shareholders. There are no family relationships among these officers nor any arrangements or understandings between any officer and any other person pursuant to which an officer was selected.

Name	Age	Position
Matthew E. Massengill	42	Chairman and Chief Executive Officer
Arif Shakeel	48	President and Chief Operating Officer
D. Scott Mercer	52	Senior Vice President and Chief Financial Officer
Raymond M. Bukaty	46	Vice President, General Counsel, and Secretary
David C. Fetah	43	Vice President, Human Resources

Mr. Massengill joined the Company in 1985 and has served in various executive capacities. From August 1999 until October 1999, he served as Co-Chief Operating Officer, and from October 1999 until January 2000, he served as Chief Operating Officer. Mr. Massengill served as President of the Company from January 2000 until January 2002, and he

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was appointed Chief Executive Officer in 2000. He assumed the additional role of Chairman of the Board of Directors in November 2001.

Mr. Shakeel joined the Company in 1985 as Product Manager, Integrated Drive Electronics. Mr. Shakeel served in various executive capacities, including Vice President, Materials — Asia, until October 1997, when he left the Company to become Managing Director of Mahlin Associates, a supplier of electromechanical components in Singapore. Mr. Shakeel rejoined the Company in April 1999 as Senior Vice President of Operations, Drive Products Division. He became Senior Vice President of Worldwide Operations in July 1999. In February 2000, he became Executive Vice President and General Manager of Hard Drive Solutions. He was promoted to Executive Vice President and Chief Operating Officer in April 2001, and served in that position until promoted to his current position of President in January 2002.

Mr. Mercer joined the Company in 1991 as Chief Financial Officer, and served in that position until 1996, when he left the Company to serve in various senior management positions at Dell Computer Corporation. At Dell Computer, Mr. Mercer was a Vice President responsible for product development and product marketing for desktop and notebook product lines. He became Vice President, Finance of Dell Computer's Relationship Group and was later appointed to Vice President, Finance U.K. Operations. Mr. Mercer rejoined the Company in 2001 as Senior Vice President and Chief Financial Officer.

Mr. Bukaty joined the Company in 1999 as Vice President, Corporate Law. Mr. Bukaty was promoted to Vice President, General Counsel and Secretary in March 2002. Prior to joining the Company, he worked at Fluor Corporation for three years, two as Assistant General Counsel and one as Senior Counsel. Prior to joining Fluor, he was a principal in the law firm of Riordan & McKinzie, which merged with Bingham McCutchen LLP in July 2003.

Mr. Fetah joined the Company in March 2000 as Vice President of Human Resources. Prior to joining the Company, he served as Executive Director, Human Resources, for PeopleSoft, Inc. Prior to joining PeopleSoft in 1996, he was Manager, Human Resources, for Fluor Corporation where he served for five years.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Western Digital's common stock is listed on the New York Stock Exchange, Inc. ("NYSE") under the symbol "WDC". The approximate number of holders of record of common stock of the Company as of August 29, 2003 was 3,164.

The Company has not paid any cash dividends on its common stock and does not intend to pay any cash dividends on common stock in the foreseeable future.

The high and low sales prices of the Company's common stock, as reported by the NYSE, for each quarter of 2003 and 2002 are as follows:

	First	Second	Third	Fourth
2003				
High	\$5.48	\$8.96	\$9.58	\$13.05
Low	2.98	4.12	6.07	8.36
2002				
High	\$4.06	\$6.79	\$7.75	\$ 7.55
Low	1.95	2.15	5.20	3.07

On January 31, 2003, employees participating in the Company's 1993 Employee Stock Purchase Plan exercised options granted under the plan to acquire approximately 1.2 million shares of common stock. Of these shares, the issuance of 470,000 shares was not registered under the Securities Act of 1933, as amended, due to an inadvertent failure to timely file a Registration Statement on Form S-8 covering an increase in the number of shares authorized under the Plan.

Item 6. Selected Financial Data**Financial Highlights**

This selected consolidated financial data should be read together with the Consolidated Financial Statements and related Notes contained in this report and in our subsequent reports filed with the SEC, as well as the section of this report and our other reports entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years Ended				
	June 27, 2003	June 28, 2002	June 29, 2001	June 30, 2000	July 3, 1999
	(in millions, except per share and employee data)				
Revenue, net	\$2,719	\$2,151	\$1,953	\$1,957	\$2,767
Gross margin	443	282	208	10	(3)
Income (loss) from continuing operations	181	53	(52)	(330)	(473)
Per share income (loss) from continuing operations:					
Basic	\$.92	\$.28	\$ (.31)	\$ (2.69)	\$ (5.28)
Diluted	\$.88	\$.28	\$ (.31)	\$ (2.69)	\$ (5.28)
Working capital	\$ 238	\$ 37	\$ 45	\$ 7	\$ 131
Total assets	\$ 866	\$ 637	\$ 508	\$ 613	\$1,022
Long-term debt	\$ —	\$ —	\$ 112	\$ 226	\$ 534
Shareholders' equity (deficiency)	\$ 327	\$ 103	\$ 7	\$ (110)	\$ (154)
Number of employees	11,508	9,550	7,909	7,321	10,503

No cash dividends were paid for the years presented.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws. The statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecasts," and the like. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions.

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

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

Description of the Business

Western Digital designs, develops, manufactures and markets hard drives for digital information storage. The Company's hard drives are used in desktop PC's, servers, network attached storage devices and an expanding list of consumer electronics ("CE") products such as video game consoles, digital video recorders and satellite and cable set-top boxes. Western Digital markets its hard drives directly to PC manufacturers, including large, brand name PC manufacturers such as Dell and HP; to CE manufacturers; and to distributors, resellers and retailers that serve a wide range of end users. Unless otherwise noted, all references to market share and industry data included in this discussion are according to the March 2003 report published by TrendFOCUS, the July 2003 report published by International Data Corporation ("IDC") and the June 2003 report published by Gartner, Inc. ("Gartner").

Western Digital builds hard drives in two assembly facilities, one in Malaysia and one in Thailand, procuring components from industry-leading technology companies that work with the Company from design and development through manufacturing.

Hard-drive industry dynamics have changed significantly over the last several years. In calendar year 2002, seven hard drive vendors competed in the \$20 billion-a-year hard drive market, compared to 15 vendors two years ago. Consolidation in the industry has produced more efficient operations, tighter supply chain management, leaner cost structures and more predictable operating results. According to TrendFOCUS quarterly reports for 2003 and calendar year 2002, Western Digital, Seagate Technologies, Maxtor Corporation, and Hitachi Global Storage Technologies (including sales by IBM and Hitachi prior to the formation of the joint venture in 2003) supplied approximately 85% of the total hard drive market during 2003.

Western Digital believes that its business model allows the Company to benefit from leading-edge component technologies and cost-saving innovations while minimizing investment expenditures. High-efficiency facilities, lean staffing and careful control of costs and working capital enable Western Digital to fund a growing revenue stream without commensurate operating expenses and to convert substantial portions of incremental revenue into earnings. The Company focuses on providing quality products, superior customer service and flexibility by intensively managing the aspects of the business it can control: technology deployment, manufacturing, cost, delivery, quality and reliability.

Western Digital's growth will be influenced greatly by developments in the PC hard drive market. TrendFOCUS estimates that desktop PC hard drive shipments totaled approximately 155 million units in calendar year 2002 and that this market will grow by approximately 6% per year through calendar year 2006. The Company has increased its resources to address the fast-growing emerging markets of Asia, Latin America and Eastern Europe, where its revenue grew to 34% of total Company revenue in fiscal year 2003 from 32% a year earlier. Gartner estimates that demand for

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desktop hard drives in emerging markets will increase 13% per year through calendar year 2007. Geographical financial data may be found in Note 8 to the Company's Consolidated Financial Statements in this report.

Because CE demand for hard drives is relatively new, with many consumer applications employing the same hard drive technology as is found in desktop PC's, Western Digital believes it can grow in this developing market without significant increases in operating expenses. TrendFOCUS estimates that unit shipments of hard drives in CE markets, which totaled approximately 9 million units in calendar year 2002, will grow by approximately 57% per year through calendar year 2006.

The Company is pursuing new revenue opportunities in enterprise storage through its application of the new SATA interface, which, the Company believes, over the next few years will replace the present parallel ATA interface in desktop PC's. The SATA interface contains many of the same benefits of the Small Computer Systems Interface, or "SCSI" — the predominant interface currently used in most enterprise hard drive applications — at a lower cost. TrendFOCUS estimates that 36% of enterprise hard drive unit shipments will use the ATA/ SATA interface by calendar year 2006. In addition, the Company is evaluating entering the mobile hard drive market. TrendFOCUS forecasts that unit sales of hard drives to the mobile market will grow from approximately 33 million in calendar year 2002 to approximately 53 million in calendar year 2006, reflecting a compound annual growth rate of approximately 13%.

Fiscal 2003 Overview

According to the June 2003 IDC PC Tracker data, the desktop PC market, the primary market for Western Digital's products, grew by less than 1% in fiscal year 2003. Despite minimal growth in this market, IDC estimates that the hard disk drive market increased by 11% based on unit shipments. In this environment, Western Digital produced strong financial results by delivering high-quality products at the right time and continuing to improve its efficiencies by controlling expenses and intensively managing working capital.

Western Digital, in 2003, produced a net revenue increase of 26%, to \$2.7 billion, on unit shipments of 39.7 million. Based on quarterly reports published by TrendFOCUS in 2003 and calendar 2002, the Company believes that its market share in hard disk drives increased to 17% from 13% in 2002. Greater revenue and strong cost control enabled the Company to increase operating income by 268%, to \$187 million. Operating margins increased to 6.9% as a percentage of net revenue, compared with 2.4% in 2002. Strong fiscal management enabled Western Digital to generate \$281 million in cash flow from operations in 2003. The Company also retired all of its convertible debt and finished the year with \$393 million in cash and cash equivalents, an increase of \$170 million from the prior year's total.

Recent Developments

In June 2003, Read-Rite Corporation, one of the Company's suppliers of heads, commenced voluntary Chapter 7 bankruptcy proceedings. On July 31, 2003, in an effort to increase the Company's operational flexibility and ensure access to future head technologies, Western Digital purchased substantially all of the assets of Read-Rite Corporation, including the wafer fabrication equipment in Fremont, California and the manufacturing facility in Bang Pa-In, Thailand. The total cost of the acquisition will be between \$170 million and \$180 million. This includes cash consideration of approximately \$95 million, assumed debt obligations of the Thailand operations of approximately \$60 million and direct costs of the acquisition and other miscellaneous assumed obligations totaling approximately \$15 million to \$25 million. As of August 29, 2003, the Company has hired 4,733 employees to continue the operations in California and Thailand.

As a result of the acquisition, the Company anticipates that its average gross margin will improve during the second half of 2004 as the acquired assets are integrated with those of the Company. However, gross margin for the first quarter of 2004 is expected to be lower due to start-up expenses, including factory employee severance costs and under-absorbed overhead related to low initial head production volumes. The Company expects that first quarter net income will be negatively impacted by one-time charges of up to \$50 million for the aforementioned start-up costs and acquired in-process research and development costs.

Results of Operations*Summary of 2003, 2002 and 2001 Comparison*

The following table sets forth, for the periods indicated, summary information from the Company's statement of operations (in millions).

	Years Ended					
	June 27, 2003		June 28, 2002		June 29, 2001	
Revenue, net	\$2,718.5	100.0%	\$2,151.2	100.0%	\$1,953.4	100.0%
Gross margin	442.9	16.3	281.6	13.1	207.7	10.6
Total operating expenses	256.1	9.4	230.9	10.7	229.2	11.7
Operating income (loss)	186.8	6.9	50.7	2.4	(21.5)	(1.1)
Net interest and other income (expense)	1.6	0.0	1.4	0.0	(30.7)	(1.6)
Income (loss) from continuing operations before income taxes	188.4	6.9	52.1	2.4	(52.2)	(2.7)
Income tax expense (benefit)	7.6	0.3	(1.1)	(0.0)	—	—
Income (loss) from continuing operations	180.8	6.6	53.2	2.4	(52.2)	(2.7)

Net Revenue

Net revenue was \$2.7 billion for fiscal year 2003, an increase of 26%, or \$567 million, from fiscal year 2002. Total unit shipments increased to 39.7 million for the year as compared to 29.1 million from the prior year as a result of the Company's improved market share as well as an increase in demand for hard drives in the PC market. Average selling price ("ASP") decreased to \$68 per unit for the year from \$74 in 2002. Historically, ASP's in the desktop hard drive industry have generally declined annually in the 10-20% range. However, those price declines have moderated over the past few quarters given longer product life cycles, industry consolidation, improved supply/ demand management and fewer component cost reduction opportunities.

Net revenue increased \$198 million or 10% in 2002 from 2001. This increase in net revenue was primarily due to an increase in unit shipments to 29.1 million in 2002 from 22.3 million in 2001, partially offset by a decrease in ASP's to \$74 per unit from \$88 per unit. The significant change in units and ASP's in 2002 from 2001 is primarily due to expansion of the Company's hard drive product line into lower-end desktop PC and consumer electronics markets.

Gross Margin

For fiscal year 2003, gross margin percentage increased to 16.3% from 13.1% for 2002. The increase in gross margin percentage over the prior year was primarily the result of a more moderate pricing environment, manufacturing efficiencies associated with higher unit volume and continuing cost reduction efforts, offset by an \$18.5 million charge related to the Cirrus Logic, Inc. ("Cirrus") litigation settlement. For fiscal year 2002, gross margin percentage increased to 13.1% from 10.6% for 2001. The increase in gross margin in 2002 from 2001 was primarily a result of more cost efficient designs and higher unit volume, partially offset by lower ASP's.

Operating Expenses

Total operating expenses, consisting of research and development ("R&D") and selling, general and administrative ("SG&A"), decreased to 9.4% of net revenue in fiscal 2003 as compared to 10.7% of net revenue in fiscal 2002 and 11.7% of net revenue in fiscal 2001. Absolute dollar increases in operating expenses over the prior years is primarily due to higher pay-for-performance and retention plan expenses, resulting from improved Company performance.

R&D expense was \$135 million, \$120 million and \$113 million for fiscal year 2003, 2002 and 2001, respectively. The increase in R&D expense in 2003 from 2002 of \$15 million and in 2002 from 2001 of \$7 million was due to increases in new development programs and higher employee incentive payments, partially offset by expense reduction efforts.

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SG&A expense was \$121 million, \$111 million and \$116 million for fiscal year 2003, 2002 and 2001, respectively. The increase in SG&A expense in 2003 from 2002 of \$10 million was primarily related to higher incentive payments resulting from improved operational results. The decrease in SG&A expense in 2002 from 2001 of \$5 million was primarily due to expense reduction efforts, partially offset by higher employee incentive payments.

Interest and Other Income (Expense)

Net interest and other income (expense) was \$1.6 million, \$1.4 million and (\$30.7) million in 2003, 2002 and 2001, respectively. This includes net investment gains of \$3.4 million in 2003, \$4.8 million in 2002, and investment write-offs and related lease contingency accruals of \$52.4 million, offset by gains on the redemption of debenture of \$22.4 million in 2001. Excluding these items, net interest and other expense was \$1.8 million, \$3.4 million and \$0.7 million in 2003, 2002 and 2001, respectively. The decrease in net expense in 2003 was primarily due to the Company's redemption of its convertible debentures resulting in lower interest expense. The increase in net expense in 2002 was primarily due to a decrease in interest income as a result of lower interest rates.

Income Tax Expense (Benefit)

Income tax expense was \$7.6 million in 2003 as compared to the income tax benefit of \$1.1 million in 2002. The increase in the income tax expense of \$8.7 million from 2002 is primarily related to an increase in earnings within certain tax jurisdictions. Differences between the effective tax rate for 2003 of 4%, as compared to the U.S. federal statutory rate, are primarily due to earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with U.S. statutory rates and the partial utilization of net operating loss ("NOL") carryforwards. The Company's 2002 net income tax benefit of \$1.1 million included a federal income tax refund of \$3.1 million for a loss carryback available as a result of tax legislation enacted during the year. During 2001, the Company did not record an income tax benefit, as no loss carrybacks were available at that time. See Note 10 of Notes to Consolidated Financial Statements.

Discontinued Operations

During 2002, the Company discontinued the operations of new business ventures, including Connex, Inc. ("Connex"), SANavigator, Inc. ("SANavigator") and Keen Personal Media, Inc. ("Keen"). The Company sold substantially all of the assets of its Connex and SANavigator businesses for a net gain of \$24.5 million and terminated the Keen operations. These operating losses for the periods reported and the net gain recognized on the sale of Connex and SANavigator have been segregated from continuing operations and reported separately on the statements of operations as discontinued operations. During 2003, the Company settled the remaining debt obligations related to one of the discontinued operations and as a result of a favorable settlement, recorded a gain of \$1.3 million.

Liquidity and Capital Resources

The Company had cash and cash equivalents of \$393 million at June 27, 2003 and \$224 million at June 28, 2002. Net cash provided by continuing operations was \$281 million and \$83 million during 2003 and 2002, respectively. This \$198 million improvement in cash provided by continuing operations consists of a \$149 million improvement in the Company's net income, net of non-cash items, and a \$49 million increase in cash provided by working capital. These improvements are due to significantly better operating performance by the Company, including higher sales volume and improved cost management.

The Company's cash conversion cycle, which represents the sum of the number of days sales outstanding ("DSO") and days inventory outstanding ("DIO") less days payable outstanding ("DPO"), was negative 9 days for 2003 and 2002. Accounts receivable at June 27, 2003 was higher than the prior year as a result of higher fourth quarter revenue combined with longer average collection days. However, this increase in average collection days was offset by improved inventory turns and longer payment days with suppliers. The allowance for doubtful accounts decreased to \$5 million at June 27, 2003 from \$8 million at June 28, 2002 as a result of the write-off of fully reserved accounts receivable balances which management determined to be uncollectable.

Other uses of cash during 2003 included net capital expenditures of \$62 million, primarily to upgrade the Company's desktop hard drive production capabilities and for the normal replacement of existing assets, \$88 million for the extinguishment or redemption of the Company's remaining 5.25% zero coupon convertible subordinated debentures

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due February 18, 2018 and \$6 million for the repayment of a subsidiary's loan. Other sources of cash during 2003 included \$44 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

Other uses of cash during 2002 included net capital expenditures of \$48 million, primarily for normal replacement of existing assets and the purchase of assets for the Company's manufacturing facility in Thailand and \$18 million for debenture redemptions.

Other sources of cash during 2002 included \$10 million received from the sale of assets, and \$10 million received in connection with stock option and warrant exercises and Employee Stock Purchase Plan purchases.

In 2003, discontinued operations used \$3 million of cash. In 2002, discontinued operations, provided \$18 million of cash, which included approximately \$37 million net proceeds from asset sales.

As discussed above under the heading "Recent Developments," Western Digital purchased substantially all of the assets of Read-Rite Corporation, including the wafer fabrication equipment in Fremont, California and the manufacturing facility in Bang Pa-In, Thailand for \$95 million, plus the assumption of liabilities and other costs of between \$75 million and \$80 million. The Company funded the purchase of these assets through working capital. For additional discussion on this acquisition, see below, under the heading "Risk Factors That May Effect Future Results."

On August 22, 2003, the Company agreed to settle its outstanding litigation with Cirrus. Under the terms of the agreement, the Company will make a one-time payment to Cirrus on or before October 17, 2003 of \$45 million. Western Digital had previously recorded an obligation totaling approximately \$26.5 million related to the disputed payables. The difference of approximately \$18.5 million between the settlement amount and the amount previously recorded was included in the cost of sales for the fourth quarter and year ended June 27, 2003.

The Company anticipates that capital expenditures in 2004 will be between \$140 million to \$160 million, including between \$70 million and \$90 million relating to the Company's new head manufacturing operations.

On September 19, 2003, the Company entered into a new \$125 million five-year credit facility ("Senior Credit Facility") replacing the facility that matured on September 20, 2003. The new Senior Credit Facility provides up to \$75 million in revolving credit and a term loan of \$50 million (subject to outstanding letters of credit and a borrowing base calculation). Both the term loan and revolving credit facility mature on September 19, 2008, and are secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets. At the option of the Company, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin. The Senior Credit Facility requires the Company to maintain certain levels of income, prohibits the payment of cash dividends on common stock, and contains a number of other covenants. The \$50 million term loan was funded on September 22, 2003 and requires quarterly principal payments of \$3 million beginning in October 2004. The Company intends to use the proceeds from the term loan to repay obligations incurred as a result of the Read-Rite asset acquisition. There were no borrowings under the revolving credit facility. However, the Company has issued a \$25 million standby letter of credit under the facility to Cirrus concerning the \$26.5 million in disputed accounts payable. As discussed in the Company's Consolidated Financial Statements, the Cirrus litigation has been settled and upon payment of the settlement on or before October 17, 2003, the letter of credit will be released (refer to Part II, Item 8, Notes to Consolidated Financial Statements, Note 5 "Legal Proceedings" included in this Annual Report on Form 10-K).

The Company believes its current cash and cash equivalents will be sufficient to meet its working capital needs through the foreseeable future. There can be no assurance that the Senior Credit Facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the headings "Risk Factors That May Affect Future Results."

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Commitments

The following is a summary of the Company's significant contractual cash obligations and commercial commitments at June 27, 2003:

Operating Leases

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2012. The following table summarizes the future payments of these leases (in millions):

	<u>Operating Leases</u>
2004	\$ 9.5
2005	7.7
2006	7.5
2007	5.7
2008	5.7
Thereafter	14.6
Total future minimum lease obligations	\$50.7

In connection with its acquisition of the assets of Read-Rite in July 2003, the Company will assume Read-Rite's lease of an approximately 181,000 square foot facility in Fremont, California that is used for wafer fabrication. The lease expires in February 2008 with annual rental payments of \$1.9 million.

Purchase Orders

In the normal course of business, to reduce the risk of component shortages, the Company enters into purchase commitments with suppliers for the purchase of hard drive components used to manufacture the Company's products. These commitments generally cover forecasted component supplies needed for production during the next quarter, become payable upon receipt of the components and may be non-cancelable (cancellation charges may be significant). The Company's relationship with suppliers allows for some flexibility within these commitments and quantities are subject to change as a quarter progresses and the Company's needs change.

Forward Exchange Contracts

Although the majority of the Company's transactions are in U.S. Dollars, some transactions are based in various foreign currencies. The Company purchases short-term, 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 Company does not purchase short-term forward exchange contracts for trading purposes. As of June 27, 2003, the Company had \$36 million outstanding of purchased foreign currency forward exchange contracts. The contracts have maturity dates that do not exceed three months. At June 27, 2003, the carrying value of the contracts approximates fair value.

Critical Accounting Policies

The Company has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States. The preparation of the financial statements requires the use of judgment and estimates that affect the reported amounts of revenue, expenses, assets and liabilities. The Company has adopted accounting policies and practices that are generally accepted in the industry in which it operates. The Company believes the following are its most critical accounting policies that affect significant areas and involve management's judgment and estimates. If these estimates differ materially from actual results, the impact to the consolidated financial statements may be material.

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Revenue and Accounts Receivable

In accordance with standard industry practice, the Company has agreements with resellers that provide price protection for inventories held by resellers at the time of published list price reductions. In addition the Company may have agreements with resellers that provide for stock rotation on slow-moving items and other incentive programs. In accordance with current accounting standards, the Company recognizes revenue upon shipment or delivery to resellers and records a reduction to revenue for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. Adjustments are based 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, the Company may have to increase sell-through incentive payments to resellers, resulting in an increase in price protection allowances, which could adversely impact operating results.

The Company establishes 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, the Company routinely analyzes the different receivable aging categories and establishes reserves based on the length of time receivables are past due. If the financial condition of a significant customer deteriorates resulting in their inability to pay their accounts when due, an increase in our allowance for doubtful accounts would be required, which could negatively affect operating results.

The Company records provisions against revenue and cost of revenue for estimated sales returns in the same period that the related revenue is recognized. The Company bases these provisions on existing product return notifications as well as historical returns by product type (see "Warranty"). If actual sales returns exceed expectations, an increase in the sales return provision would be required, which could negatively affect operating results.

Warranty

The Company records an accrual for estimated warranty costs when revenue is recognized. Warranty covers cost of repair or replacement of the hard drive over the warranty period, which ranges from one to five years. The Company has comprehensive processes with which to estimate accruals for warranty, which include specific detail on hard drives in the field by product type, historical field return rates and costs to repair. If actual product return rates or costs to repair returned products increase above expectations, an increase in the warranty provision would be required, which could negatively affect operating results.

Inventory

Inventories are valued at the lower of cost (first-in, first-out basis) or net realizable value. Inventory write-downs are recorded 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.

The Company evaluates inventory balances for excess quantities and obsolescence on a regular basis by analyzing backlog, estimated demand, inventory on hand, sales levels and other information. The Company writes down inventory balances for excess and obsolete inventory based on the 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 an increase in inventory write-downs, which could negatively affect operating results.

Litigation and Other Contingencies

The Company applies Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS 5") to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, the Company accrues loss contingencies when management, in consultation with its legal advisors, concludes that a loss is probable and reasonably estimable. (Refer to Part II, Item 8, Notes to Consolidated Financial Statements, Note 5 "Legal Proceedings" included in this Annual Report on Form 10-K).

Deferred Tax Assets

The Company's deferred tax assets, which consist primarily of net operating loss and tax credit carryforwards, are fully reserved due to management's determination that it is "more likely than not" that these assets will not be realized. This determination is based on the weight of available evidence, the most significant of which is the Company's loss

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history in the related tax jurisdictions. Should this determination change in the future, some amount of deferred tax assets could be recognized, resulting in a tax benefit or a reduction of future tax expense.

Risk Factors That May Affect Future Results

Our operating results depend on optimizing time-to-market and time-to-volume, overall quality of new technologies and costs of new and established products.

To achieve consistent success with computer manufacturer customers, we must balance four key attributes: time-to-market, time-to-volume, quality and cost. If we fail to:

- maintain overall quality of products on new and established programs,
- maintain competitive cost structures on new and established products,
- produce sufficient quantities of products at the capacities our customers demand while managing the integration of new and established technologies,
- qualify new products that have changes in overall specifications or features that our customers may require for their business needs,
- qualify these products with key customers on a timely basis by meeting all of our customers' needs for performance, quality and features, or
- consistently meet stated quality requirements on delivered products,

our operating results would be adversely affected.

Product life cycles require continuous technical innovation associated with higher areal densities.

New products may require higher areal densities (the gigabyte of storage per disk) than previous product generations, posing formidable technical challenges. Higher areal densities require fewer heads and disks to achieve a given drive capacity, which means that existing head technology must 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 would put us at a competitive disadvantage to companies that achieve these results.

Increases in areal density may outpace customers' demand for storage capacity.

The rate of increase in areal density may be greater than the increase in our customers' demand for aggregate storage capacity. This could lead to our customers' storage capacity needs being satisfied with more lower-cost single-surface drives, thereby decreasing our revenue. As a result, even with increasing aggregate demand for storage capacity, our ASP's could decline, which could adversely affect our results of operations.

Short product life cycles make it difficult to recover the cost of development.

Product life cycles have extended during the past twelve months due to a decrease in the rate of hard drive areal density growth. However, there can be no assurance that this trend will continue. Historically, more rapid increases in areal density resulted in shorter product life cycles, with each generation of hard drives being more cost efficient than the previous one. Shorter product life cycles makes it more difficult to recover the cost of product development before the product becomes obsolete. Although we believe that the current rate of growth in areal density is lower than in the past several years and will continue to decrease in the near term, we expect that areal density will continue to increase. Our failure to recover the cost of product development in the future could adversely affect our operating results.

Increasing product life cycles may require us to reduce our costs to remain competitive.

Longer product life cycles have resulted from a decrease in the rate of areal density growth in the past twelve months. If longer product life cycles continue, we may need to develop new technologies or programs, such as system-on-a-chip, to reduce our costs on any particular product in order to maintain competitive pricing for such product. This may

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result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating 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. To be considered for qualification we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, 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 computer manufacturers, most of which continue to consolidate their share of the PC market. If product life cycles continue to be extended due to a decrease in the rate of areal density growth, 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.

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

If one of our competitors were able to implement a significant advance in head or disk drive technology that enables a “step-change” increase in areal density that permits greater storage of data on a disk, it could put us at a competitive disadvantage and harm our operating results.

Advances in magnetic, optical, semiconductor or other data storage technologies could result in competitive products that have better performance or lower cost per unit of capacity than our products. If these products prove to be superior in performance or cost per unit of capacity, we could be at a competitive disadvantage to the companies offering those products.

The decline in ASP's in the hard disk drive industry could adversely affect our operating results.

The hard disk drive industry has experienced declining ASP's in recent years. Although the rate of decline has decreased in recent quarters, there can be no assurance that this trend will continue. Increases in areal density mean that the average drive we sell has fewer heads and disks for the same capacity, and therefore lower component cost. Because of the competitiveness of the hard drive industry, lower costs generally mean lower prices. This is true even for those products that are competitive and introduced into the market in a timely manner. Our ASP's decline even further 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. A continued decline in ASP's could cause our operating results to suffer.

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

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or 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. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. For example, during the first quarter of 2000, the Company lost market share as a result of a product recall. Similar losses in market share could adversely affect 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 has led to intense price competition. During the middle of 2003, the industry experienced weak PC demand in the U.S. and other markets due in part to general economic conditions worldwide. If intense price competition occurs as a result of weak demand, we may be forced to lower prices sooner and more than expected, which could result in lower revenue and gross margins.

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

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems. According to data released by International Data Corporation Tracker in December 2002, systems priced below \$600 currently comprise the fastest growing segment of the consumer market for desktop computers. Although we were late to market with a value line hard drive to serve the low-cost PC market, we are now offering such value line products at prices that we view as competitive. However, if we are not able to continue to offer a competitively priced value line hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

In addition, the PC market is fragmenting into a variety of computing devices and products. Some of these products may not contain a hard drive. On the other hand, many industry analysts expect, as do we, that as communications are increasingly converted 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 consumer products other than computers. For example, several game console manufacturers have expressed support for hard drives in their products. However, market acceptance of the use of hard drives in game consoles remains in its early stages. In addition, some consumer electronics, such as PVRs and DVRs, may require attributes not currently offered in our products, which may result in a need to expend capital, increasing our overall operational expense. If we are not successful in using our hard drive technology and expertise to develop new products for the emerging consumer electronics market, or if we are required to incur significant costs in developing such products, it may harm our operating results.

If we do not successfully expand into new hard drive market segments, our business may suffer.

To remain a significant supplier of hard disk drives, we will need to offer a broad range of disk drive products to our customers. We currently offer a variety of 3.5-inch form factor hard disk drives for the desktop computer market. However, demand for desktop hard drives may shift to products in smaller form factors, which we do not currently offer, but which some of our competitors offer. In addition, the desktop PC industry is transitioning to higher speed interfaces such as SATA to handle higher data transfer rates and 80 GB per platter technology for increased capacity. The Company currently offers SATA and 80 GB per platter products, however, the transition of technology and the introduction of new products is challenging and creates risks. While we continue to develop new products and look to expand into non-desktop applications such as consumer electronics and mobile products, the success of our new product introductions is dependent on a number of factors, including difficulties faced in manufacturing ramp, market acceptance, effective management of inventory levels in line with anticipated product demand, and the risk that our new products will have quality problems or other defects in the early stages of introduction that were not anticipated in the design of those products. If we fail to successfully develop and manufacture new products, customers may decrease the amount of our products that they purchase, and we may lose business to our competitors who offer these products or who use their dominance in the enterprise or mobile market to encourage sales of desktop hard drives.

We depend on our key personnel and skilled employees.

Our success depends upon the continued contributions of our key personnel 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 personnel or skilled employees who have been granted stock options. If we are unable to retain our existing key personnel or skilled employees or hire and integrate new key personnel or skilled employees, our operating results would likely be harmed.

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

A majority of our revenue comes from a few customers. For example, during 2003, sales to our top 10 customers accounted for approximately 55% of revenue. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed. For example, this occurred with

our SCSI enterprise hard drive product line early in the third quarter of 2000 and is one of the factors which led to our decision to exit the SCSI enterprise hard drive market.

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

Because we depend on a limited number of suppliers for certain hard drive components, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could significantly harm our operating results. A number of the components used by us are available from only a single or limited number of qualified outside suppliers, and there is continued attrition and consolidation in our supplier base. In June 2003, Read-Rite Corporation, one of our suppliers of heads, commenced voluntary Chapter 7 bankruptcy proceedings. In July 2003, we acquired the assets of Read-Rite in an effort to increase our operational flexibility and ensure our access to future head technologies. Although it is anticipated that our acquisition will reduce our dependence on outside suppliers for heads, we may not be able to supply all of our head needs, and, therefore, we may still be required to purchase heads, as well as other hard drive components, from outside sources. If a component is in short supply, or a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. In addition, if a component becomes unavailable, we could suffer significant loss of revenue. For example, we lost revenue in September 1999 when we had to shut down production of a product line for approximately two weeks as a result of a faulty power driver chip that was sole-sourced from a third party supplier.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying these components. As a result, we may have to pay significant cancellation charges to suppliers if we cancel orders, as we did in 1998 when we accelerated our transition to giant magnetoresistive head technology, and as we did in 2000 as a result of our decision to exit the SCSI enterprise hard drive market.

In some cases, not only are we dependent on a limited number of suppliers, but we also have entered into contractual commitments that require us to buy a substantial number of components from certain suppliers. For example in April 1999, we entered into a three-year volume purchase agreement with Komag under which we buy a substantial portion of our media components from Komag. In October 2001, we amended the Komag volume purchase agreement to extend the initial term to six years. Similarly, we have entered into contractual commitments with both IBM and Marvell for the supply of our read channel devices. In February 2001, we entered into a two-year volume purchase agreement with IBM under which we buy a portion of our read channel devices from IBM. Effective June 2002, we amended the IBM volume purchase agreement to extend the initial term through December 31, 2003. In addition, in June 2002, we entered into a five-year volume purchase agreement with Marvell under which we buy a portion of our read channel devices from Marvell. These relationships have increased our dependence on each of Komag, IBM and Marvell as a supplier. Our future operating results may depend substantially on Komag's ability to timely qualify its media components in our new development programs, and each of Komag's, IBM's and Marvell's ability to supply us with these components in sufficient volume to meet our production requirements. A significant disruption in Komag's ability to manufacture and supply us with media components or IBM's or Marvell's ability to manufacture and supply us with read channel devices could harm our operating results.

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

As a result of our acquisition of the assets of Read-Rite, we are developing and manufacturing heads for use in the hard drives we manufacture. Consequently, we will be more dependent upon our own development efforts and less able to take advantage of head technologies developed by other head manufacturers. In November 2002, Read-Rite announced that it had achieved an areal density of 146 gigabits per square inch using perpendicular recording technology. There can be no assurance, however, that we will be successful in timely and cost effectively developing and manufacturing heads for products using perpendicular recording technology, or other future technologies. We also may not achieve acceptable manufacturing yields using such technologies necessary to satisfy our customers' product needs. In addition, we may not have access to external sources of supply without incurring substantial costs. If we fail to timely manufacture heads containing leading technology, or if we are unable to achieve acceptable manufacturing yields of heads, our ability to sell our products may be adversely affected. Moreover, if we fail to develop new technologies in a timely manner, and if our

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competitors succeed in doing so or have access to external sources of supply that incorporate such new technologies, our business and financial results could suffer.

If we are unable to successfully integrate the assets of Read-Rite Corporation into our business in a timely manner, our business and financial results could be adversely affected.

In July 2003, we acquired the assets of Read-Rite Corporation, formerly one of our suppliers of heads, and we are in the process of integrating the acquired assets into our company. We may not successfully address the integration challenges in a timely manner, or at all. Integration requires varying levels of management resources, which may divert our attention from other business operations. It may be difficult for us to successfully integrate the assets, products, technologies or personnel of Read-Rite, which could materially and adversely affect our business, financial condition and results of operations.

In connection with our acquisition of Read-Rite's assets, we will experience additional costs and risks.

Our acquisition of Read-Rite's assets represents a fundamental change in our operating structure, as we are now manufacturing heads for use in the hard drives we manufacture. Due to the vertical integration of part of our supply chain, we carry a higher percentage of fixed costs than traditionally assumed in our overall business model. If the overall level of production decreases for any reason, the acquired 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;
- the greater need for predictability of quarterly production to ensure best utilization of assets to drive competitive costs; and
- the need for assured supply of components, especially hard drive media, that is optimized to work with our heads.

Moreover, capital expenditures and working capital investments required to operate Read-Rite's assets will utilize additional cash. For example, while the purchased assets of Read-Rite, including intellectual property, head designs, and manufacturing equipment, would indicate successful internal qualification of a Western Digital-manufactured 80 GB per platter giant magnetoresistive head, we expect significant investment in research and development and investigation of new recording technologies to extend recording technology will be required. The Company expects its capital expenditures, viewed as an average over several years, to increase by approximately \$70 million to \$90 million to support the acquired manufacturing operations of Read-Rite.

In addition, we may incur additional costs, expenses and risks, including:

- costs and expenses related to inventory adjustments, legal, accounting and financial advisory fees;
- we may not have sufficient head sources in the event that we are unable to manufacture a sufficient supply of heads to satisfy our needs;
- third party head suppliers may not deal with us or may not deal with us on the same terms and conditions we have previously enjoyed;
- component suppliers of Read-Rite may not deal with us on favorable terms;
- management may be unduly distracted in operating the newly acquired Read-Rite assets;
- we may not be able to attract and retain former Read-Rite employees to work in our facilities;
- the costs of operating Read-Rite's assets may exceed the prices we have historically paid for heads or the prices that might be otherwise available to us from other vendors;
- we may be subject to claims that our manufacturing of heads may infringe certain intellectual property rights of other companies; and

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- we could incur substantial costs, including clean up costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws applicable to our new Fremont, California facility, including those governing the discharge of pollutants into the air and water.

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

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

Under our business model, we do not manufacture any of the component parts used in our hard drives, other than heads as a result of our recent acquisition of the assets of Read-Rite. As a result, the success of our products depends on our ability to gain access to and integrate parts that are “best in class” from reliable component suppliers. To do so we must effectively manage our relationships with our strategic component suppliers. We must also effectively integrate different products from a variety of suppliers, each of which employs variations on technology, which can impact, for example, feasible combinations of heads and media components. Until recently, we were engaged in litigation with Cirrus, a supplier who previously was the sole source of read channel devices for our hard drives. We settled this litigation in August 2003. As a result of the disputes that gave rise to the litigation, our business operations were 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.

Some of our customers have adopted a subcontractor model that increases our credit risk and could result in an increase in our operating costs.

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies 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. Any credit losses we may suffer as a result of this increased risk would increase our operating costs, which may negatively impact our operating results.

We have only two high-volume hard-drive manufacturing facilities and two head manufacturing facilities, which subjects us to the risk of damage or loss of any of these facilities.

The majority of our hard drive manufacturing volume comes from one facility in Malaysia. During 2002, we acquired a second, smaller manufacturing facility in Thailand. In addition, following our acquisition of the assets of Read-Rite in July 2003, we are operating a wafer fabrication facility in Fremont, California and a slider fabrication facility in Thailand. A fire, flood, earthquake or other disaster, condition or event that adversely affects any of these facilities or our ability to manufacture could result in a loss of sales and revenue and harm our operating results.

Terrorist attacks may adversely affect our business and operating results.

The terrorist attacks on the United States on September 11, 2001, the United States-led military response to counter terrorism and 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 the Company operates. Further 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.

Manufacturing our products abroad subjects us to numerous risks.

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

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

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- transportation delays or 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.

We have attempted to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward exchange contracts. However, those contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place, which occurred in Malaysia during the first quarter of 1999. As a result of the Malaysian currency controls, we are no longer hedging the Malaysian currency risk. Currently, we hedge the Euro, Thai Baht and British Pound Sterling.

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 are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If 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. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would likely increase our costs and harm our operating results.

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

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

We are subject to risks related to product defect, which 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 generally warrant our products for one to five years. The standard warranties used by us contain limits on damages and exclusions of liability for consequential damages and for negligent or improper use of the products. 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.

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

We often book and ship a high percentage (at times in excess of 50%) of our total quarterly sales in the third month of the quarter, which makes it difficult for us to forecast our financial results prior to 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;
- variations in the cost of components for our products;
- limited access to components that we obtain from a single or a limited number of suppliers, such as Komag, IBM and Marvell;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PC's often due to technological advances; and
- availability and rates of transportation.

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

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

- accruals for warranty costs related to product defects;
- 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 litigation and other contingencies; and
- reserves for deferred tax assets.

The market price of our common stock is volatile.

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

- actual or anticipated fluctuations in our operating results;
- announcements of technological innovations by us or our competitors which may decrease the volume and profitability of sales of our existing products and increase the risk of inventory obsolescence;
- new products introduced by us or our competitors;
- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures;
- developments with respect to patents or proprietary rights;

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- conditions and trends in the hard drive, data and content management, storage and communication industries; and
- changes in financial estimates by securities analysts relating specifically to us or the hard drive industry in general.

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.

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

Due to the risks described herein, in the future we may be unable to maintain adequate financial resources for capital expenditures, expansion or acquisition activity, working capital and research and development. We have a credit facility, which matures on September 19, 2008. If we decide to increase or accelerate our capital expenditures or research and development efforts, or if results of operations do not meet our expectations, we could require additional debt or equity financing. However, we cannot ensure that additional financing will be available to us or available on acceptable terms. An equity financing could also be dilutive to our existing stockholders.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Disclosure About Foreign Currency Risk

Although the majority of the Company's transactions are in U.S. Dollars, some transactions are based in various foreign currencies. The Company purchases short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses 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 the results of operations. The resulting impact from these hedge contracts is to offset a majority of the currency gains and losses in the Company's local currency operating expenses. The contract maturity dates do not exceed three months. The Company does not purchase short-term forward exchange contracts for trading purposes. Currently, the Company focuses on hedging its foreign currency risk related to the Thai Baht, British Pound Sterling and the Euro.

As of June 27, 2003, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except weighted average contract rate):

	June 27, 2003		
	Contract Amount	Weighted Average Contract Rate	Unrealized Gain (Loss)
Foreign currency forward contracts:			
Thai Baht	\$31.0	41.73	—
British Pound Sterling	\$ 3.3	1.65	—
Euro	\$ 1.5	1.15	—

In 2003, 2002 and 2001, total realized transaction and forward exchange contract currency gains and losses were not material to the consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates would materially affect the Company's consolidated financial statements.

Disclosure About Other Market Risks

Fixed Interest Rate Risk

During 2003, the Company redeemed its remaining outstanding 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures") and paid \$88 million in cash and issued approximately 0.1 million shares of common stock. The aggregate principal amount at maturity was \$194 million.

Variable Interest Rate Risk

At the option of the Company, borrowings under the Senior Credit Facility would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. This is the only Company borrowing facility which does not have a fixed-rate of interest. At June 27, 2003, there were no borrowings outstanding under the Facility.

Fair Value Risk

During 2003, the Company sold all of its remaining shares of Vixel Corporation common stock resulting in a gain of \$3.4 million.

Item 8. *Financial Statements and Supplementary Data*

Index to Financial Statements and Financial Statement Schedule

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INDEPENDENT AUDITORS' REPORT

The Board of Directors

Western Digital Corporation:

We have audited the consolidated financial statements of Western Digital Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Digital Corporation and subsidiaries as of June 27, 2003 and June 28, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended June 27, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of revenue recognition with respect to certain sales commencing on July 1, 2000 in order to conform with SEC Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

KPMG LLP

Orange County, California

July 24, 2003, except as to the
fourth paragraph of Note 3
and the sixth paragraph of Note 5,
which are as of September 19, 2003

WESTERN DIGITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)

	Years ended		
	June 27, 2003	June 28, 2002	June 29, 2001
Revenue, net	\$2,718.5	\$2,151.2	\$1,953.4
Cost of revenue	2,275.6	1,869.6	1,745.7
Gross margin	442.9	281.6	207.7
Operating expenses:			
Research and development	134.7	120.1	113.4
Selling, general and administrative	121.4	110.8	115.8
Total operating expenses	256.1	230.9	229.2
Operating income (loss)	186.8	50.7	(21.5)
Net interest and other income (expense)	1.6	1.4	(30.7)
Income (loss) from continuing operations before income taxes, and cumulative effect of change in accounting principle	188.4	52.1	(52.2)
Income tax expense (benefit)	7.6	(1.1)	—
Income (loss) from continuing operations before cumulative effect of change in accounting principle	180.8	53.2	(52.2)
Discontinued operations	1.3	12.2	(45.2)
Cumulative effect of change in accounting principle	—	—	(1.5)
Net income (loss)	\$ 182.1	\$ 65.4	\$ (98.9)
Basic income (loss) per common share:			
Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$.92	\$.28	\$ (.31)
Discontinued operations	.01	.07	(.27)
Cumulative effect of change in accounting principle	—	—	(.01)
	\$.93	\$.35	\$ (.59)
Diluted income (loss) per common share:			
Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$.88	\$.28	\$ (.31)
Discontinued operations	.01	.06	(.27)
Cumulative effect of change in accounting principle	—	—	(.01)
	\$.89	\$.34	\$ (.59)
Weighted average shares outstanding:			
Basic	195.6	189.0	168.7
Diluted	205.5	193.7	168.7

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

WESTERN DIGITAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(in millions)

	June 27, 2003	June 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 393.2	\$ 223.7
Accounts receivable, net	243.9	218.8
Inventories	97.8	73.4
Other	9.2	13.3
Total current assets	744.1	529.2
Property and equipment, net	122.1	107.5
Total assets	\$ 866.2	\$ 636.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 352.3	\$ 303.0
Accrued warranty	41.0	26.9
Accrued expenses	112.4	76.6
Convertible debentures	—	86.2
Total current liabilities	505.7	492.7
Other liabilities	33.1	41.1
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, \$.01 par value; Authorized — 5.0 shares; Outstanding — None	—	—
Common stock, \$.01 par value; Authorized — 450.0 shares; Outstanding — 203.6 shares in 2003 and 195.4 in 2002	2.0	1.9
Additional paid-in capital	676.6	714.2
Deferred compensation	(1.2)	(3.2)
Accumulated deficit	(334.2)	(516.3)
Accumulated other comprehensive income	—	2.6
Treasury stock — common shares at cost; 0.7 shares in 2003 and 3.3 shares in 2002	(15.8)	(96.3)
Total shareholders' equity	327.4	102.9
Total liabilities and shareholders' equity	\$ 866.2	\$ 636.7

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

WESTERN DIGITAL CORPORATION

 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
 (in millions)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Deferred Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Comprehensive Income (Loss)	Total Shareholders' Equity	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount						
Balance at June 30, 2000	153.3	\$1.5	(9.8)	\$(179.8)	\$549.9	\$ —	\$(482.8)	\$ 1.4	\$(109.8)	
ESPP shares issued			1.2	11.2	(6.8)				4.4	
Exercise of stock options			0.9	8.6	(5.9)				2.7	
Shares issued in debenture redemption	16.0	0.2			95.3				95.5	
Shares issued in equity facility sales	23.5	0.2			110.3				110.5	
Deferred compensation plan			1.3	11.8	(7.4)	(3.7)			0.7	
Net loss							(98.9)		(98.9)	\$ (98.9)
Unrealized gain on investment securities								1.7	1.7	1.7
Balance at June 29, 2001	192.8	1.9	(6.4)	(148.2)	735.4	(3.7)	(581.7)	3.1	6.8	\$(97.2)
ESPP shares issued			1.3	13.9	(9.6)				4.3	
Exercise of stock options and warrants			1.6	34.3	(28.5)				5.8	
Shares issued in debenture redemption	2.6	—			13.6				13.6	
Deferred compensation plan, net			0.2	3.7	(2.6)	0.5			1.6	
Net effect of subsidiary equity transactions					5.9				5.9	
Net income							65.4		65.4	\$ 65.4
Unrealized loss on investment securities								(0.5)	(0.5)	(0.5)
Balance at June 28, 2002	195.4	1.9	(3.3)	(96.3)	714.2	(3.2)	(516.3)	2.6	102.9	\$ 64.9
ESPP shares issued	1.2	—	0.9	24.2	(17.0)				7.2	
Exercise of stock options	6.9	0.1	1.9	57.8	(20.8)				37.1	
Shares issued in debenture redemption	0.1	—			0.2				0.2	
Deferred compensation plan			(0.2)	(1.5)		2.0			0.5	
Net income							182.1		182.1	\$182.1
Realized gain on investment securities, net								(2.6)	(2.6)	(2.6)
Balance at June 27, 2003	203.6	\$2.0	(0.7)	\$(15.8)	\$676.6	\$(1.2)	\$(334.2)	\$ —	\$ 327.4	\$179.5

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

WESTERN DIGITAL CORPORATION

 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in millions)

	Years ended		
	June 27, 2003	June 28, 2002	June 29, 2001
Cash flows from operating activities			
Net income (loss)	\$182.1	\$ 65.4	\$ (98.9)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities of continuing operations:			
Discontinued operations	(1.3)	(12.2)	45.2
Loss (gain) on debenture redemptions	—	0.1	(22.4)
Loss on litigation settlement	18.5	—	—
Depreciation and amortization	50.4	45.8	51.9
Non-cash interest expense	3.0	5.6	7.5
Investment gains, net	(3.4)	(4.4)	—
Non-cash adjustment to Komag investment and note	—	—	39.3
Changes in:			
Accounts receivable	(25.1)	(90.5)	31.1
Inventories	(24.4)	5.4	1.8
Other assets	(0.3)	0.9	(0.1)
Accounts payable	49.3	80.0	(39.9)
Accrued expenses	23.3	(14.0)	(68.6)
Other	8.7	0.7	(5.7)
Net cash provided by (used for) continuing operations	280.8	82.8	(58.8)
Cash flows from investing activities			
Capital expenditures, net	(61.9)	(47.7)	(50.7)
Other investment activity	3.4	9.9	15.0
Net cash used for investing activities of continuing operations	(58.5)	(37.8)	(35.7)
Cash flows from financing activities			
Issuance of common stock under employee plans	44.3	10.1	7.1
Debenture redemptions and extinguishments	(88.3)	(17.6)	—
Common stock issued for cash	—	—	110.5
Other subsidiary financing activity	(5.9)	0.4	—
Net cash (used for) provided by financing activities of continuing operations	(49.9)	(7.1)	117.6
Net cash (used for) provided by discontinued operations	(2.9)	18.2	(39.5)
Net increase (decrease) in cash and cash equivalents	169.5	56.1	(16.4)
Cash and cash equivalents, beginning of year	223.7	167.6	184.0
Cash and cash equivalents, end of year	\$393.2	\$223.7	\$167.6
Supplemental disclosure of cash flow information:			
Cash paid during the period for income taxes	\$ 3.5	\$ 2.0	\$ 1.5
Supplemental disclosure of non-cash investing and financing activities:			
Common stock issued for extinguishment of convertible debentures	\$ 0.2	\$ 13.6	\$ 95.5

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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

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

Fiscal Year

The Company has a 52 or 53-week fiscal year. The 2003, 2002 and 2001 fiscal years ended on June 27, 28 and 29 respectively, and consisted of 52 weeks each. All general references to years relate to fiscal years unless otherwise noted.

Basis of Presentation

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

Cash Equivalents

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

Concentration of Credit Risk

The Company designs, develops, manufactures and markets hard drives to personal computer manufacturers, resellers and retailers throughout the world. The Company performs ongoing credit evaluations of its customers’ financial condition and generally requires no collateral. The Company maintains reserves for potential credit losses, and such losses have historically been within management’s expectations. At June 27, 2003 and June 28, 2002, the Company had reserves for potential credit losses of \$5.2 million and \$7.6 million, respectively. The Company also has cash equivalent policies that limit the amount of credit exposure to any one financial institution or investment instrument, and require that investments be made only with financial institutions or in investment instruments evaluated as highly credit-worthy.

Inventory Valuation

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

Property and Equipment

The cost of property and equipment is depreciated over the estimated useful lives of the respective assets. The majority of the Company’s property and equipment is being depreciated over three years. Depreciation is computed on a straight-line basis. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue Recognition

The Company adopted Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), during its quarter ended June 29, 2001. SAB 101 extends the point at which revenue is recognized to include the transfer of the risks of ownership. Generally, this occurs at the time of shipment for the Company's original equipment manufacturer ("OEM") customers, and at the time of delivery for its reseller customers. Accordingly, the Company changed its revenue recognition policy effective July 1, 2000 to recognize revenue on certain product shipments upon delivery rather than shipment. The accounting change resulted in a net increase to revenue for 2001 of \$13.1 million, of which \$16.9 million had previously been recorded in 2000. The cumulative effect on the 2001 net loss of this accounting change was \$1.5 million.

In accordance with standard industry practice, the Company's agreements with certain resellers (including distributors and retailers) provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving items. Either party may terminate these agreements upon written notice. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory. The Company recognizes revenue at the time of delivery to resellers and accrues for estimated pricing adjustments and sales returns. Net revenue recognized on sales to resellers was approximately \$1.3 billion, \$1.0 billion and \$1.0 billion for 2003, 2002 and 2001, respectively. Repurchases of reseller inventory were not material in 2003, 2002 and 2001.

Warranty

The Company records an accrual for estimated warranty costs as products are sold. Warranty covers cost of repair or replacement of the hard drive during the warranty period, which ranges from one to five years and is recorded in the accompanying balance sheet as current or long term based upon when the expenditure is expected to occur. The Company has comprehensive processes with which to estimate accruals for warranty, which include specific detail on hard drives in the field by product type, historical field return rates and costs to repair. Although the Company believes that it has the continued ability to reasonably estimate warranty reserves, unforeseeable changes in factors used to estimate the accrual for warranty could occur. These unforeseeable changes could cause a material change in the Company's warranty accrual estimate. Such a change would be recorded in the period in which the change was identified.

Advertising Expense

Advertising costs are expensed as incurred. Selling, general and administrative expenses of the Company include advertising costs of \$3.4 million, \$6.0 million and \$7.4 million in 2003, 2002 and 2001, respectively.

Income Taxes

The Company accounts for income taxes under the 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 the Company's assets and liabilities and expected benefits of utilizing net operating loss ("NOL") carryforwards. The Company records a valuation allowance where it is "more likely than not" that the deferred tax assets will not be realized. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the consolidated financial statements in the period of enactment (see Note 10).

Per Share Information

The Company computes basic income (loss) per share using the net income (loss) and the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the net income (loss) and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares include outstanding employee stock options, employee stock purchase plan shares and restricted stock awards.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the years ended June 27, 2003, June 28, 2002 and June 29, 2001, 19.9 million, 24.7 million and 23.3 million shares, respectively, relating to the possible exercise of outstanding stock options were not included in the computation of diluted income (loss) per share. Also, for the years ended June 28, 2002 and June 29, 2001, an additional 2.9 million and 4.0 million shares, respectively, issuable upon conversion of the convertible debentures were excluded from the computation of diluted income (loss) per share. The effects of these items were not included in the computation of diluted income (loss) per share as their effect would have been anti-dilutive.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), establishes the financial accounting and reporting standards for stock-based compensation plans. As permitted by SFAS 123, the Company elected to continue accounting for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB Opinion No. 25") and to follow the pro forma net income (loss), pro forma earnings (loss) per share, and stock-based compensation plan disclosure requirements set forth in SFAS 123. The following table sets forth the computation of basic and diluted earnings (loss) per share for each of the past three fiscal years and illustrates the effect on net income (loss) and earnings (loss) per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	Year Ended		
	June 27, 2003	June 28, 2002	June 29, 2001
	(in millions, except per share amounts)		
Net income (loss)			
As reported	\$182.1	\$ 65.4	\$ (98.9)
Stock-based employee compensation included in reported earnings	2.0	1.6	0.7
Stock-based employee compensation expense determined under fair-value based methods for all awards	(27.3)	(24.7)	(30.4)
Pro forma net income (loss)	\$156.8	\$ 42.3	\$(128.6)
Basic income (loss) per share:			
As reported	\$ 0.93	\$ 0.35	\$ (0.59)
Pro forma	\$ 0.80	\$ 0.22	\$ (0.76)
Diluted income (loss) per share:			
As reported	\$ 0.89	\$ 0.34	\$ (0.59)
Pro forma	\$ 0.77	\$ 0.22	\$ (0.76)

The pro forma earnings (loss) per share information is estimated using the Black-Scholes option pricing model. The Black Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including the expected stock price volatility and expected period until options are exercised (see Note 6 for additional information on fair value disclosures). The pro forma impact of applying SFAS 123 at June 27, 2003 is not necessarily representative of future periods.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value for all periods presented because of the short-term maturity of these financial instruments. The carrying amounts of all other financial instruments in the consolidated balance sheets approximate fair values.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenue, expenses, gains and losses that are recorded as an element of shareholders' equity but are excluded from net income (loss). The Company's other comprehensive income (loss) is comprised of unrealized gains and losses on marketable securities categorized as "available for sale" under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115").

Foreign Exchange Contracts

Although the majority of the Company's transactions are in U.S. Dollars, some transactions are based in various foreign currencies. The Company purchases short-term, 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 contracts is to minimize the impact of foreign currency fluctuations on operations. The resulting impact from these hedge contracts is to offset a majority of the currency gains and losses in the Company's local currency operating expenses. The contracts have maturity dates that do not exceed three months. The Company does not purchase short-term forward exchange contracts for trading purposes.

The Company applies the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. The Company had outstanding forward exchange contracts with commercial banks for the Thai Baht, British Pound Sterling and Euro with values of \$35.8 million and \$5.0 million at June 27, 2003 and June 28, 2002, respectively. Any changes in fair value on these contracts were recorded through the results of operations for the years ended June 27, 2003 and June 28, 2002.

Use of Estimates

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with generally accepted accounting principles. These estimates and assumptions have been applied using methodologies which are consistent throughout the periods presented. However, actual results could differ from these estimates.

Reclassifications

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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2. Supplemental Financial Statement Data (in millions)

	2003	2002	2001
Net Interest and Other Income (Expense)			
Interest income	\$ 3.8	\$ 4.1	\$ 7.1
Interest and other expense	(5.3)	(8.1)	(8.7)
Gain (losses) on investments, net	3.1	(4.2)	(0.3)
Minority interest in losses of consolidated subsidiary	—	0.7	1.2
Gains (losses) on redemption of debentures	—	(0.1)	22.4
Other gains (charges)(1)	—	9.0	(52.4)
	<u> </u>	<u> </u>	<u> </u>
Net interest and other income (expense)	\$ 1.6	\$ 1.4	\$(30.7)
	<u> </u>	<u> </u>	<u> </u>
Inventories			
Finished goods	\$ 66.4	\$ 54.5	
Work in process	19.6	9.5	
Raw materials and component parts	11.8	9.4	
	<u> </u>	<u> </u>	
	\$ 97.8	\$ 73.4	
	<u> </u>	<u> </u>	
Property and Equipment			
Land and buildings	\$ 59.4	\$ 59.1	
Machinery and equipment	342.4	290.5	
Furniture and fixtures	6.8	6.6	
Leasehold improvements	11.6	11.2	
	<u> </u>	<u> </u>	
	420.2	367.4	
Accumulated depreciation and amortization	(298.1)	(259.9)	
	<u> </u>	<u> </u>	
Net property and equipment	\$ 122.1	\$ 107.5	
	<u> </u>	<u> </u>	

(1) During the fourth quarter of 2001, as a result of Komag's public announcement regarding its intention not to pay certain debt and interest amounts when due, and due to the market value trend of its common stock, the carrying amount of the equity investment in Komag was determined to have suffered an "other than temporary" decline in market value. Accordingly, the Company recorded nonoperating charges totaling \$52.4 million to adjust the carrying values of equity investments in and notes receivable from Komag and to accrue for the contingent guarantees of the Komag equipment and facility leases. On August 24, 2001, Komag announced its voluntary Chapter 11 reorganization filing. During 2002, the Company sold its creditor position and remaining investments in Komag to an unrelated party for \$9.0 million.

Note 3. Convertible Debentures and Line of Credit

Convertible Debentures

During 2003, the Company redeemed its remaining outstanding 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures") and paid \$88.3 million in cash and issued approximately 0.1 million shares of common stock. The book value of the redeemed Debentures was \$88.6 million, and the aggregate principal amount at maturity was \$193.5 million. During 2002, the Company paid \$17.6 million in cash and issued 2.6 million shares of common stock in exchange for Debentures with a book value of \$31.6 million and an aggregate principal amount at maturity of \$72.4 million. During 2001, the Company issued 16.0 million shares of common stock in exchange for Debentures with a book value of \$120.3 million and an aggregate principal amount at maturity of \$295.7 million. These redemptions were private, individually negotiated transactions with certain institutional investors

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and resulted in a loss of \$0.1 million during 2002 and gain of \$22.4 million during 2001. The net loss of the redeemed Debentures was not material in 2003.

On June 29, 2002, the Company adopted Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections" ("SFAS 145"). As a result, the loss of \$0.1 million in 2002 and the gain of \$22.4 million in 2001 from the redemption of debentures were reclassified as other income (expense) instead of extraordinary items.

Debenture issuance costs were included in other assets and amortized over the term of the Debentures. During 2002 and 2001, approximately \$0.4 million and \$2.4 million, respectively, of unamortized issuance costs were included with the loss or gain in connection with the redemptions. As of June 27, 2003 the balance of unamortized Debenture issuance costs was zero.

Line of Credit

On September 19, 2003, the Company entered into a new \$125 million five-year credit facility ("Senior Credit Facility") replacing the facility that matured on September 20, 2003. The new Senior Credit Facility provides up to \$75 million in revolving credit and a term loan of \$50 million (subject to outstanding letters of credit and a borrowing base calculation). Both the term loan and revolving credit facility mature on September 19, 2008, and are secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets. At the option of the Company, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin. The Senior Credit Facility requires the Company to maintain certain levels of income, prohibits the payment of cash dividends on common stock, and contains a number of other covenants. The \$50 million term loan was funded on September 22, 2003 and requires quarterly principal payments of \$3.1 million beginning in October 2004. The Company intends to use the proceeds from the term loan to repay obligations incurred as a result of the Read-Rite asset acquisition (see Note 11). At June 27, 2003 there were no borrowings under the revolving credit facility. However, the Company has issued a \$25 million standby letter of credit under the facility to Cirrus Logic, Inc. ("Cirrus") concerning the \$26.5 million in disputed accounts payable. As discussed in Note 5, the Cirrus litigation has been settled and upon payment of the settlement on or before October 17, 2003, the letter of credit will be released.

Note 4. Commitments and Contingencies*Operating Lease Commitments*

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2012. Rental expense under these leases, including month-to-month rentals, was \$11.4 million, \$11.7 million and \$15.4 million in 2003, 2002 and 2001, respectively.

Future minimum rental payments under non-cancelable operating leases as of June 27, 2003 are as follows (in millions):

2004	\$ 9.5
2005	7.7
2006	7.5
2007	5.7
2008	5.7
Thereafter	14.6
	—
Total future minimum rental payments	\$50.7

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Product Warranty Liability

The Company records a provision for estimated warranty costs as products are sold to cover the cost of repair or replacement of the hard drive during the warranty period. This provision is based on estimated future returns within the warranty period and costs to repair, using historical field return rates by product type and current average repair cost. Changes in the warranty provision were as follows (in millions):

Balance at June 28, 2002	\$ 47.4
Charges to operations	54.6
Utilization	(53.8)
Changes in liability related to pre-existing warranties	4.7
	—
Balance at June 27, 2003	\$ 52.9

Note 5. Legal Proceedings

In June 1994, Papst Licensing (“Papst”) brought suit against the Company in the United States District Court for the Central District of California, alleging infringement by the Company of five disk drive motor patents owned by Papst. In December 1994, Papst dismissed its case without prejudice. In July 2002, Papst filed a new complaint against the Company and several other defendants. The suit alleges infringement by the Company of seventeen of Papst’s patents related to disk drive motors that the Company purchased from motor vendors. Papst is seeking an injunction and damages. The Company filed an answer on September 4, 2002, denying Papst’s complaint. On December 11, 2002, the lawsuit was transferred to the United States District Court for the Eastern District of Louisiana and included in the consolidated pre-trial proceedings occurring there. The lawsuit was stayed pending the outcome of certain other related litigation. A potential loss, if any, cannot presently be reasonably estimated. The Company intends to vigorously defend the suit.

On July 5, 2001, the Company’s Western Digital Technologies, Inc. subsidiary (“WDT”) and its Malaysian subsidiary (“WDM”) filed suit (the “complaint”) against Cirrus for breach of contract and other claims resulting from Cirrus’ role as a strategic supplier of read channel devices for the Company’s hard disk drives. WDM also stopped making payments to Cirrus for past deliveries of devices and terminated all outstanding purchase orders from Cirrus for such devices. The complaint alleges that Cirrus’ unlawful conduct caused damages in excess of any amounts alleged to be owing on outstanding invoices or arising out of any alleged breach of the outstanding purchase orders. On August 20, 2001, Cirrus filed an answer and cross-complaint denying the allegations contained in the complaint and asserting counterclaims against the plaintiffs for, among other things, the amount of the outstanding invoices and the plaintiffs’ alleged breach of the outstanding purchase orders. The disputed payable, which is included in the Company’s balance sheet in accounts payable, is approximately \$27 million. Cirrus claims that the canceled purchase orders, which are not reflected in the Company’s financial statements, total approximately \$26 million. On November 2, 2001, Cirrus filed Applications for Right to Attach Orders and for Writs of Attachment against WDT and WDM in the amount of \$25.2 million as security for the approximately \$27 million allegedly owed for read-channel devices purchased from Cirrus that is disputed by WDT and WDM. On December 20, 2001, the Court granted Cirrus’ Applications. Pursuant to agreement with Cirrus, the Company posted a letter of credit in the amount of \$25.2 million in satisfaction of the Writs of Attachment.

On November 26, 2002, WDT and WDM filed a motion for summary adjudication as to Cirrus’ second and third causes of action. The parties fully briefed the motion, which was scheduled to be heard on December 24, 2002. On December 24, 2002, the Court continued the summary judgment motion until February 4, 2003, and then, on February 4, 2003, further continued the motion until April 1, 2003, to allow Cirrus to conduct additional discovery. On December 3, 2002, Cirrus filed a motion for summary adjudication as to WDT and WDM’s first, second, third, fourth, fifth, and seventh causes of action. The parties fully briefed the motion, which was scheduled to be heard on December 31, 2002. On December 31, 2002, after hearing arguments from both sides, the Court granted Cirrus’ motion

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as to the first, second, fourth, fifth and seventh causes of action, and denied Cirrus' motion as to the third cause of action. On January 30, 2003, Cirrus filed another motion for summary adjudication as to the third cause of action. The parties completed briefing on the motion and the motion was scheduled to be heard on April 15, 2003.

On March 4, 2003, WDT filed a motion for leave to amend its second amended complaint, seeking to add causes of action for intentional and fraudulent misrepresentation and negligent misrepresentation. The Court granted WDT's motion on March 25, 2003. On March 18, 2003, WDT filed a motion to continue the trial date from May 19, 2003. On April 8, 2003, the Court granted Western Digital's motion and moved the trial date to December 1, 2003. As a result, of its ruling to continue the trial date, the Court continued the mandatory settlement conference originally scheduled for April 25, 2003, and continued indefinitely the hearings on WDT's motion for summary judgment and Cirrus' motion for summary judgment originally scheduled for April 1, 2003 and April 15, 2003, respectively. The Court also moved the discovery cutoff date from April 18, 2003 to September 2003.

On April 22, 2003, Cirrus filed a demurrer to WDT's claims for promissory estoppel, intentional and fraudulent misrepresentation and negligent misrepresentation. The Court scheduled a hearing on the demurrer for May 13, 2003. On May 13, 2003, the Court referred the case to the panel on complex litigation for a determination as to whether the case should be regarded as complex. The Court also continued indefinitely the hearing on Cirrus' demurrer to WDT's claims for promissory estoppel, intentional and fraudulent misrepresentation and negligent misrepresentation, which had been scheduled for that day. On June 13, 2003 the complex litigation panel accepted the case. The case was assigned to a new judge who vacated all hearing dates that had previously been set.

In July 2003, the parties agreed to attempt to resolve their claims through mediation, and scheduled a mediation for August 22, 2003. On August 22, 2003, the Company and Cirrus reached a settlement of this litigation. Under the terms of the agreement, the Company will make a one-time payment to Cirrus on or before October 17, 2003 of \$45 million in exchange for a mutual release of claims. The letter of credit previously posted by the Company will also be released. Western Digital had previously recorded an obligation totaling approximately \$26.5 million related to the disputed payables. The difference of approximately \$18.5 million between the settlement amount and the amount previously recorded was included in the cost of sales for the fourth quarter and year ended June 27, 2003. The Company expects that formal dismissals of claims will be entered with the Court in this matter in the near future.

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, individually and in the aggregate, beyond that provided at June 27, 2003, would not be material to the Company's financial condition. However, there can be no assurance with respect to such result and results could differ materially from those projected.

Note 6. Shareholders' Equity

Equity Facility

During 2001, the Company issued 23.5 million shares of common stock under an equity facility for net cash proceeds of approximately \$110.5 million. Under shelf registrations (the "equity facility") previously in effect with the Securities and Exchange Commission ("SEC"), the Company issued shares of common stock to institutional investors for cash. Shares sold under the equity facility were at the market price of the Company's common stock less a discount ranging from 2.75% to 4.25%. During 2002, the Company withdrew these shelf registrations.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock Reserved for Issuance

The following table summarizes all shares of common stock reserved for issuance at June 27, 2003 (in millions):

	Number of Shares
Issuable in connection with:	
Exercise of stock options, including options available for grant	33.8
Employee stock purchase plan	3.5
	—
	37.3
	—

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (“ESPP”) that operates in accordance with Section 423 of the Internal Revenue Code whereby eligible employees may authorize payroll deductions of up to 10% of their salary to purchase shares of the Company’s common stock at 85% of the fair market value of common stock on the date of grant or the exercise date, whichever is less. Approximately 3.5 million shares of common stock remain reserved for issuance under this plan. Approximately 2.1 million, 1.3 million and 1.2 million shares were issued under this plan during 2003, 2002 and 2001, respectively.

Stock Option Plans

Western Digital’s Employee Stock Option Plan (“Employee Plan”) is administered by the Compensation Committee of the Board of Directors (“Compensation Committee”), which determines the vesting provisions, the form of payment for the shares and all other terms of the options. Terms of the Employee Plan require that the exercise price of options be not less than the fair market value of the common stock on the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. As of June 27, 2003, options to purchase 7.7 million shares of common stock were exercisable and 6.5 million shares were available for grant under this plan. Pursuant to the terms of the Employee Plan, participants are permitted to utilize previously purchased common stock as consideration to purchase additional common stock upon exercise of options or to exercise on a cashless basis through the Company designated broker.

The Company has a Broad-Based Stock Incentive Plan (the “Broad-Based Plan”) under which options to purchase shares of common stock and stock awards may be granted to employees of the Company and others. This plan is intended to qualify as “broadly-based” under the New York Stock Exchange shareholder approval policy. The Compensation Committee determines the vesting provisions and other terms of the options and stock. To date, the options granted vest either one year, two years or four years from the date of grant. As of June 27, 2003, options to purchase 4.7 million shares of common stock were exercisable and 1.5 million shares were available for grant as options or stock awards, under this plan.

Under the Broad-Based Plan, the Company issued to certain employees 0.2 million (net of cancellations) and 1.3 million shares of restricted stock during 2002 and 2001, respectively. The stock vests on the second and third anniversary dates of the grant provided that the recipient is still employed by the Company. The aggregate market value (net of cancellations) of the restricted stock at the dates of issuance was \$1.1 million and \$4.4 million for 2002 and 2001, respectively. These amounts have been recorded as deferred compensation, a separate component of shareholders’ equity, and are being amortized over the three-year vesting period. No restricted stock was issued during fiscal year 2003.

The Company has a Stock Option Plan for Non-Employee Directors (“Director Plan”) and has reserved 2.6 million shares for issuance thereunder. The Director Plan provides for initial option grants to new directors of 75,000 shares per director and additional grants of options to purchase 10,000 shares of common stock per director each year upon their reelection as a director at the annual shareholders’ meeting. Terms of the Director Plan require that options have a ten-year term and that the exercise price of options be not less than the fair market value at the date of grant. Options granted

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. As of June 27, 2003, options to purchase 0.5 million shares of common stock were exercisable and 0.8 million shares were available for grant under this plan.

The following table summarizes activity under the Employee, Broad-Based and Director Plans (in millions, except per share amounts):

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding at June 30, 2000	20.9	\$ 8.83
Granted	7.8	5.45
Exercised	(0.9)	3.14
Canceled or expired	(4.4)	10.02
Options outstanding at June 29, 2001	23.4	7.69
Granted	8.3	3.13
Exercised	(1.3)	3.50
Canceled or expired	(1.3)	8.46
Options outstanding at June 28, 2002	29.1	6.54
Granted	5.6	4.61
Exercised	(8.8)	4.19
Canceled or expired	(0.9)	7.69
Options outstanding at June 27, 2003	25.0	6.89

The following tables summarizes information about options outstanding and exercisable under the Employee, Broad-Based and Director Plans at June 27, 2003 (in millions, except per share amounts):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 2.10	3.3	8.25	\$ 2.10	0.8	\$ 2.10
2.21 – 3.50	2.5	5.43	3.17	1.3	3.06
3.63 – 3.85	3.6	9.16	3.84	0.2	3.78
3.88 – 4.56	2.6	6.83	4.35	1.6	4.38
4.60 – 5.74	1.6	7.56	5.13	0.7	5.10
5.81 – 6.00	3.1	7.21	6.00	1.8	6.00
6.05 – 8.81	3.4	5.81	7.32	2.2	7.49
8.88 – 12.88	3.2	4.95	11.76	2.6	11.94
13.50 – 23.13	0.9	4.28	17.94	0.9	18.00
23.63 – 48.50	0.8	3.68	32.81	0.8	32.81
Total	25.0	6.72	6.89	12.9	9.12

Fair Value Disclosures

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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

fair value method of that statement (see Note 1 for further information on pro forma net income (loss) and earnings (loss) per share).

The fair value of options granted in 2003, 2002 and 2001 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Option Plans			ESPP		
	2003	2002	2001	2003	2002	2001
Option life (in years)	3.8	3.0	2.5	1.3	2.0	2.0
Risk-free interest rate	3.31%	3.37%	4.20%	1.93%	2.90%	4.20%
Stock price volatility	0.88	0.88	1.05	0.88	0.88	1.05
Dividend yield	—	—	—	—	—	—

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

	2003	2002	2001
Options granted under the Stock Option Plans	\$2.89	\$1.94	\$3.86
Shares granted under the ESPP	\$2.64	\$2.90	\$4.65

Stock Purchase Rights

In 1989, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carried one Right to Purchase Series A Junior Participating Preferred Stock (the "Right"). The Right enabled the holder, under certain circumstances, to purchase common stock of Western Digital or of an acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding common stock. On September 10, 1998 the Company's Board of Directors approved the adoption of a new Rights plan to replace the previous plan, which expired in September 1998. The Rights under the 1998 plan were similar to the rights under the 1989 plan except they were redeemable by the Company at \$.01 per Right and expired in 2008. In connection with the establishment of a holding company structure on April 6, 2001, the Company terminated the Rights under the 1998 plan and adopted a new Rights plan. The 2001 plan is similar to the terminated 1998 plan, except that the exercise price was reduced from \$150.00 to \$50.00 per share, and the expiration date for the 2001 Rights plan was extended to April 2011.

Note 7. Savings and Profit Sharing Plan

Effective July 1, 1991, the Company adopted a Savings and Profit Sharing Plan, the Western Digital Corporation Retirement Savings and Profit Sharing Plan (the "Plan"). The Plan includes an employee 401(k) plan. The Plan covers substantially all domestic employees, subject to certain eligibility requirements. The Company may make annual contributions to the 401(k) plan at the discretion of the Board of Directors. For 2003, 2002 and 2001 the Company made contributions to the 401(k) plan of \$1.8 million, \$1.4 million and \$1.7 million, respectively.

Note 8. Business Segment, International Operations and Major Customers

Segment Information

As of June 27, 2003, the Company operated in one segment, the hard drive business. The Company's new business ventures were discontinued in 2002 (see Note 9).

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

International Operations

The Company's operations outside the United States include manufacturing facilities in Malaysia and Thailand as well as sales offices throughout Europe and Asia. The following table summarizes operations by geographic areas for the past three years. United States revenue to unaffiliated customers include export sales to international customers of \$1.1 billion, \$0.7 billion and \$0.5 billion in 2003, 2002 and 2001, respectively.

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of \$47.8 million, \$47.1 million and \$50.0 million in 2003, 2002 and 2001, respectively, have been excluded in determining operating income (loss) by geographic region. Asia revenue and assets for the periods presented below consist primarily of the Company's Malaysian operations.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	United States	Europe	Asia	Eliminations	Total
(in millions)					
Year ended June 27, 2003					
Sales to unaffiliated customers	\$2,164	\$554	\$ 1	\$ —	\$2,719
Transfers between geographic areas	538	—	2,255	(2,793)	—
Revenue, net	\$2,702	\$554	\$2,256	\$(2,793)	\$2,719
Operating income	\$ 108	\$ 3	\$ 123	\$ 1	\$ 235
Long-lived assets	\$ 16	\$ —	\$ 106	\$ —	\$ 122
Year ended June 28, 2002					
Sales to unaffiliated customers	\$1,703	\$447	\$ 1	\$ —	\$2,151
Transfers between geographic areas	433	—	1,891	(2,324)	—
Revenue, net	\$2,136	\$447	\$1,892	\$(2,324)	\$2,151
Operating income (loss)	\$ (21)	\$ 1	\$ 108	\$ 10	\$ 98
Long-lived assets	\$ 18	\$ —	\$ 90	\$ —	\$ 108
Year ended June 29, 2001					
Sales to unaffiliated customers	\$1,554	\$397	\$ 2	\$ —	\$1,953
Transfers between geographic areas	385	5	1,769	(2,159)	—
Revenue, net	\$1,939	\$402	\$1,771	\$(2,159)	\$1,953
Operating income (loss)	\$ (84)	\$ 2	\$ 111	\$ —	\$ 29
Long-lived assets	\$ 45	\$ —	\$ 78	\$ (1)	\$ 122

Major Customers

During 2003 and 2002, sales to Dell Computer accounted for 20% and 15% of the Company's revenue, respectively and sales to Hewlett-Packard (including sales to Compaq Computer prior to its merger with Hewlett-Packard in 2002) accounted for 13% of the Company's revenue in both years. During 2001, sales to Dell Computer accounted for 16% of the Company's revenue and sales to Compaq Computer accounted for 12% of the Company's revenue.

Note 9. Discontinued Operations

The Company acquired Connex, Inc. ("Connex"), a storage systems and solutions startup, in 1999. SANavigator, Inc. ("SANavigator") was formed as a subsidiary of Connex in 2001 and developed and marketed storage area network management software.

During 2000, the Company formed Keen Personal Media, Inc. ("Keen PM"), to develop and sell interactive personal video recorder and set-top box software, services and hardware for broadband television content management and commerce.

In 2002, the Company discontinued Connex, SANavigator and Keen. The disposals have been accounted for as discontinued operations and, accordingly, the consolidated financial statements for all periods presented have been reclassified. In August 2001, substantially all of the operating assets of Connex were sold to Quantum Corporation for cash proceeds of \$11.0 million, and in September 2001 substantially all of the operating assets of SANavigator were sold to McData Corporation for cash proceeds of \$29.8 million. These transactions generated a gain of \$24.5 million, net of costs incurred from the measurement date of July 1, 2001 through the end of the period to shutdown the businesses.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 2002, in connection with the disposal of Keen, the Company assumed certain remaining debt commitments, as Western Digital was the guarantor of these obligations. In 2003, the Company repaid these obligations resulting in a gain of \$1.3 million due to a favorable settlement.

Note 10. Income Taxes

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

	2003	2002	2001
United States	\$ 64.9	\$ (56.5)	\$(214.8)
International	124.8	120.8	115.9
Income (loss) before income taxes	\$189.7	\$ 64.3	\$ (98.9)

The components of the income tax expense (benefit) are as follows (in millions):

	2003	2002	2001
Current			
United States	\$4.0	\$(3.1)	\$(1.8)
International	3.4	1.7	1.6
State	0.2	0.3	0.2
Income tax expense (benefit)	\$7.6	\$(1.1)	\$ —

The tax benefits associated with employee exercises of non-qualified stock options, disqualifying dispositions of stock acquired with incentive stock options, and disqualifying dispositions of stock acquired under the employee stock purchase plan generally reduce taxes currently payable. However, no tax benefits were recorded to additional paid-in capital in 2003, 2002 and 2001 because their realization was not believed to be "more likely than not." Consequently, a valuation allowance was recorded against the entire benefit. Benefits to be recognized in the future related to stock option deductions are approximately \$23.7 million.

During 2002, the company received a refund of U.S. federal income taxes of \$3.1 million. This refund was for alternative minimum taxes paid in prior years and was made in accordance with legislation enacted during 2002.

Temporary differences and carryforwards, which give rise to a significant portion of deferred tax assets and liabilities at June 27, 2003 and June 28, 2002 are as follows (in millions):

	2003	2002
Deferred tax assets:		
NOL carryforward	\$ 252.5	\$ 234.0
Business credit carryforward	40.4	44.2
Reserves and accrued expenses not currently deductible	66.2	83.0
All other	2.1	8.0
	361.2	369.2
Valuation allowance	(361.2)	(369.2)
Total deferred tax assets	\$ —	\$ —
Deferred tax liabilities:		
Unremitted income of foreign subsidiaries	\$ 9.3	\$ 9.0
Total deferred tax liabilities	\$ 9.3	\$ 9.0

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reserves and accrued expenses not currently deductible include the following (in millions):

	2003	2002
Sales related reserves and adjustments	\$43.3	\$42.6
Accrued compensation and benefits	10.9	5.7
Inventory reserves and adjustments	1.4	2.0
Other accrued liabilities	10.6	32.7
Total deferred tax assets	\$66.2	\$83.0

During 2002, the Company repatriated a significant amount of prior years' earnings of its foreign subsidiaries. As a result, there was a significant reduction in net operating loss carryforwards. The repatriation occurred following the enactment in 2002 of favorable but temporary U.S. tax law changes. Remaining net undistributed earnings from foreign subsidiaries at June 27, 2003, on which no U.S. tax has been provided, amounted to approximately \$217.3 million. The net undistributed earnings are intended to finance local operating requirements. Accordingly, an additional United States tax provision has not been made on these earnings.

The Company determines deferred taxes for each of its tax-paying subsidiaries within each tax jurisdiction. The deferred tax assets indicated above are attributable primarily to tax jurisdictions where a history of earnings has not been established. The taxable earnings in these tax jurisdictions are also subject to volatility. Therefore, the Company believes a valuation allowance is needed to reduce the deferred tax asset to an amount that is "more likely than not" to be realized.

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

	2003	2002	2001
U.S. Federal statutory rate	35.0%	35.0%	(35.0)%
Current year U.S. loss not benefitted	0.0	0.0	76.1
State income taxes, net	0.1	0.5	0.2
Tax rate differential on international income	(21.9)	(63.1)	(42.7)
Tax effect of repatriation	14.7	272.2	0.0
Utilization of NOL carryforward	(23.5)	(218.2)	0.0
Change in valuation allowance	(4.2)	(28.0)	0.0
Other	3.8	(0.2)	1.4
Effective tax rate	4.0%	(1.8)%	0.0%

Certain income of selected subsidiaries is taxed at substantially lower income tax rates as compared to local statutory rates. The lower rates reduced income taxes and improved the net income or loss by \$33.6 million (\$0.16 per diluted share), \$29.3 million (\$0.15 per diluted share) and \$30.0 million (\$0.18 per diluted share) in 2003, 2002 and 2001, respectively. These lower rates are in effect through fiscal year 2004.

At June 27, 2003, the Company had Federal and state net operating loss carryforwards of approximately \$640.5 million and \$471.8 million, respectively. In addition, the Company had various Federal and state tax credit carryforwards of approximately \$40.4 million. The loss carryforwards are available to offset future Federal and state taxable income through 2022 and 2014, respectively. Approximately \$24.0 million of the credit carryforwards are available to offset future taxable income through 2023. The remaining \$16.4 million are available indefinitely.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Subsequent Events

Asset Acquisition (unaudited)

On July 31, 2003, the Company purchased substantially all of the assets of Read-Rite Corporation, including the wafer fabrication equipment in Fremont, California and the manufacturing facility in Bang Pa-In, Thailand. The total cost of the acquisition will be between \$170 million and \$180 million. This includes cash consideration of approximately \$95 million, assumed debt obligations of the Thailand operations of approximately \$60 million and direct costs of the acquisition and other miscellaneous assumed obligations totaling approximately \$15 million to \$25 million. The Company will account for this transaction as an asset acquisition.

Note 12. Quarterly Results of Operations (unaudited)

	First(1)(3)	Second(2)(3)	Third(3)	Fourth(3)(4)
(in millions, except per share amounts)				
2003				
Revenue, net	\$582.9	\$749.5	\$705.8	\$680.3
Gross margin	83.6	144.1	122.0	93.2
Operating income	25.3	76.0	57.1	28.4
Income from continuing operations	22.2	73.1	54.5	31.0
Net income	22.2	74.4	54.5	31.0
Basic earnings per share	\$ 0.12	\$ 0.38	\$ 0.28	\$ 0.16
Diluted earnings per share	\$ 0.11	\$ 0.36	\$ 0.26	\$ 0.15
2002				
Revenue, net	\$440.9	\$574.7	\$594.9	\$540.7
Gross margin	56.0	70.6	81.0	74.0
Operating income (loss)	(0.2)	12.9	20.8	17.2
Income (loss) from continuing operations	(0.6)	15.5	22.1	16.2
Gain (loss) from discontinued operations	21.1	(2.9)	(2.9)	(3.1)
Net income	20.5	12.6	19.2	13.1
Basic and diluted earnings per share	\$ 0.11	\$ 0.07	\$ 0.10	\$ 0.07

- (1) During the first quarter of 2002, the Company sold substantially all the assets of Connex and SANavigator for cash proceeds of \$11 million and \$30 million respectively. The Company recognized a gain of \$24.5 million, net of costs incurred from the measurement date of July 1, 2001 through the end of the period to shutdown the businesses.
- (2) The second quarter of 2002 includes a \$9 million cash recovery from its Komag note receivable and investment that were written off during the fourth quarter of 2001. Also during the quarter, the Company recorded a \$6 million non-cash loss on the write-down of certain cost-method investments that were determined to be impaired. These amounts have been included in other income (expense).
- (3) The quarterly results presented have been reclassified to present the operations of Connex, SANavigator, and Keen PM as discontinued.
- (4) The fourth quarter of 2003 includes an \$18.5 million loss on the settlement of the Cirrus litigation recorded in cost of sales and a \$3 million gain on the sale of investments recorded in other income (expense).

WESTERN DIGITAL CORPORATION

SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Three years ended June 27, 2003
(in millions)

	Allowance for Doubtful Accounts	Accrued Warranty(1)
Balance at June 30, 2000	\$13.3	\$70.6
Charges to operations	1.2	39.7
Deductions	(1.2)	(57.8)
Balance at June 29, 2001	13.3	52.5
Charges to operations	3.5	46.5
Deductions	(9.2)	(51.6)
Balance at June 28, 2002	7.6	47.4
Charges to operations	2.9	59.3
Deductions	(5.3)	(53.8)
Balance at June 27, 2003	\$5.2	\$52.9

(1) Accrued warranty includes amounts classified in non-current liabilities of \$11.9 million at June 27, 2003, \$20.5 million at June 28, 2002 and \$21.5 million at June 29, 2001.

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

None.

Item 9A. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the Company would meet its disclosure obligations.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders under the captions "Proposal 1: Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 2003.

Item 11. Executive Compensation

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders under the captions "Director Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Stock Performance Graph," and "Employment Agreements, Termination of Employment and Change of Control Arrangements," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders under the captions "Security Ownership by Principal Shareholders and Management" and "Equity Compensation Plan Information," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 2003.

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Item 13. Certain Relationships and Related Transactions

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 2003.

Item 14. Principal Accountant Fees and Services

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2003 Annual Meeting of Shareholders under the caption "Proposal 3: Ratification of Selection of Independent Public Accountants," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 2003.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

(1) Index to Financial Statements

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

(2) Financial Statement Schedules

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

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

Separate financial statements of the Company have been omitted as the Company is primarily an operating company and its subsidiaries are wholly or majority owned and do not have minority equity interests and/or indebtedness to any person other than the Company in amounts which together exceed 5% of the total consolidated assets as shown by the most recent year-end consolidated balance sheet.

(3) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001, by and among Western Digital Corporation, Western Digital Technologies, Inc. (f/k/a Western Digital Corporation) and WD Merger Sub, Inc.(10)
2.2	Asset Purchase Agreement between Chapter 7 Trustee for the Bankruptcy Estate of Read-Rite Corporation and RR(US) Acquisition Corporation, dated July 24, 2003, including Option Agreements to purchase all of the outstanding capital stock of Read-Rite International, Sunward Technologies International, and Read Rite Holding Company(21)
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001(10)
3.2	Certificate of Amendment of Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on January 8, 2002(20)
3.3	Amended and Restated By-laws of Western Digital Corporation, adopted as of July 16, 2002(20)
4.1	Rights Agreement between Western Digital Corporation and American Stock Transfer & Trust Company, as Rights Agent, dated as of April 6, 2001, which includes as Exhibit A thereto the Form of Right Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(10)
4.2	Form of Common Stock Certificate(1)
4.3	Certificate of Designations of Series A Junior Participating Preferred Stock of Western Digital Corporation, dated April 6, 2001(10)

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Exhibit Number	Description
10.1	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(3)*
10.1.1	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001(11)*
10.2	Western Digital Corporation Broad-Based Stock Incentive Plan(6)*
10.2.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001(11)*
10.3	Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, effective as of May 25, 2000(11)*
10.3.1	First Amendment to the Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001(11)*
10.4	Western Digital Corporation 1993 Employee Stock Purchase Plan (amended and restated as of November 14, 2002)(17)*
10.5	Amended and Restated Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, effective as of November 14, 2002(17)*
10.6	Western Digital Corporation Non-Employee Director Restricted Stock Unit Plan, effective March 28, 2003(18)*
10.7	Western Digital Corporation Incentive Compensation Plan(12)*
10.8	Amended and Restated Deferred Compensation Plan, effective March 28, 2003(18)*
10.9	Amended and Restated Executive Bonus Plan, effective March 28, 2003(18)*
10.10	Amended and Restated 401(k) Plan, adopted as of March 28, 2002(14)*
10.10.1	First Amendment to Western Digital Corporation 401(k) Plan, effective as of July 1, 2002(17)*
10.11	Western Digital Corporation Executive Retention Plan(2)*
10.12	Amended and Restated Long-Term Retention Agreement, between Western Digital Corporation and Matthew E. Massengill, effective as of December 20, 2002(17)*
10.13	Amended and Restated Long-Term Retention Agreement, between Western Digital Corporation and Arif Shakeel, effective as of December 20, 2002(17)*
10.14	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, effective December 1, 1999(5)*
10.14.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001(11)*
10.15	Western Digital Corporation Amended and Restated Change of Control Severance Plan, effective March 29, 2001(17)*
10.16	Letter agreement, dated October 19, 2001, by and between Western Digital Corporation and D. Scott Mercer(13)*
10.17	Letter agreement, dated October 30, 2002, by and between Western Digital Corporation and Charles William Frank(17)*
10.18	Form of Indemnity Agreement for Directors of Western Digital Corporation(16)
10.19	Form of Indemnity Agreement for Officers of Western Digital Corporation(16)
10.20	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(8)
10.21	Standard Industrial/ Commercial Single-Tenant Lease and Addendum No. 1, dated May 1, 2000, between One Morgan, LLC and Western Digital Corporation†
10.22	Lease Agreement, dated June 3, 1996, together with First Amendment, between South Bay/ Edenvale Associates and Western Digital Corporation†
10.23	Single Tenant Industrial Lease Agreement, dated as of August 24, 1992, between Shuwa Investments Corporation and Read-Rite Corporation, together with Second Amendment to Lease, dated as of May 28, 2002†

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Exhibit Number	Description
10.24	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(4)(7)
10.24.1	Amendment No. 1 to Volume Purchase Agreement by and between Western Digital Corporation and Komag, Inc. effective October 5, 2001(12)
10.24.2	Amendment No. 2 to Volume Purchase Agreement, effective as of October 17, 2002, among Western Digital Corporation, Komag, Inc. and Komag USA (Malaysia) Sdn.(17)(19)
10.25	Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated February 7, 2001(15)§
10.25.1	Amendment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated as of December 18, 2001(15)§
10.25.2	Amendment 2 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., effective as of June 19, 2002(15)
10.25.3	Third Amended and Restated Attachment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated as of June 19, 2002(15)§
10.26	Supply Agreement for the Fabrication and Purchase of Semiconductor Products, dated June 13, 2002, among Marvell Semiconductor, Inc., Marvell Asia Pte. Ltd. and Western Digital Technologies, Inc.(18)§
10.27	Credit Agreement, dated as of September 20, 2000, among Western Digital Technologies, Inc., the other credit parties identified therein, General Electric Capital Corporation and Bank of America, N.A.(9)
10.27.1	First Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated March 8, 2001(11)
10.27.2	Second Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of March 23, 2001(11)
10.27.3	Third Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of April 7, 2001(11)
10.27.4	Fourth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of September 26, 2001(12)
10.27.5	Fifth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of December 21, 2001(13)§
10.27.6	Sixth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of January 11, 2002(14)
10.27.7	Seventh Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of June 28, 2002(15)
10.28	Continuing Guaranty, between Western Digital Corporation and General Electric Capital Corporation, dated as of April 7, 2001(11)
21	Subsidiaries of Western Digital Corporation†
23	Consent of Independent Auditors†
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†

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† New exhibit filed with this Report.

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

§ Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed separately with the Securities and Exchange Commission.

- (1) Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.
- (2) 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 November 10, 1998.
- (3) 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, 1999.
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on October 1, 1999.
- (5) 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 14, 2000.
- (6) 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 May 15, 2000.
- (7) Subject to confidentiality order dated June 27, 2000.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 28, 2000.
- (9) 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 November 13, 2000.
- (10) 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 April 6, 2001.
- (11) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 27, 2001.
- (12) 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 November 13, 2001.
- (13) 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, 2002.
- (14) 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 May 6, 2002.
- (15) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 25, 2002.
- (16) 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 November 8, 2002.
- (17) 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 7, 2003.
- (18) 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 May 9, 2003.
- (19) Subject to confidentiality order dated May 13, 2003.
- (20) Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-107227), as filed with the Securities and Exchange Commission on July 22, 2003.
- (21) 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 August 15, 2003.

(b) Reports on Form 8-K

On April 24, 2003, the Company filed a current report on Form 8-K to file its press release dated April 24, 2003, announcing financial information for the quarter ended March 28, 2003, and including unaudited Condensed Consolidated Statements of Income and Balance Sheets for the quarter ended March 28, 2003.

On May 7, 2003, the Company filed a current report on Form 8-K to provide Regulation FD disclosure in connection with investor presentations delivered by officials of the Company that included an update on certain conditions in the hard drive industry.

On June 11, 2003, the Company filed a current report on Form 8-K to provide Regulation FD disclosure in connection with investor presentations delivered by officials of the Company that included an update on certain conditions in the hard drive industry.

SIGNATURES

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

WESTERN DIGITAL CORPORATION

By: _____ /s/ SCOTT MERCER

D. Scott Mercer
Senior Vice President and Chief Financial Officer

Dated: September 22, 2003

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ /s/ MATTHEW E. MASSENGILL Matthew E. Massengill	Chairman and Chief Executive Officer (Principal Executive Officer)	September 22, 2003
_____ /s/ SCOTT MERCER D. Scott Mercer	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	September 22, 2003
_____ /s/ JOSEPH R. CARRILLO Joseph R. Carrillo	Vice President and Corporate Controller (Principal Accounting Officer)	September 22, 2003
_____ /s/ PETER D. BEHRENDT Peter D. Behrendt	Director	September 22, 2003
_____ /s/ I. M. BOOTH I. M. Booth	Director	September 22, 2003
_____ /s/ KATHLEEN A. COTE Kathleen A. Cote	Director	September 22, 2003
_____ /s/ HENRY T. DENERO Henry T. DeNero	Director	September 22, 2003
_____ /s/ WILLIAM L. KIMSEY William L. Kimsey	Director	September 22, 2003
_____ /s/ MICHAEL D. LAMBERT Michael D. Lambert	Director	September 22, 2003

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ ROGER H. MOORE</p> <hr/> <p>Roger H. Moore</p>	Director	September 22, 2003
<hr/> <p>/s/ THOMAS E. PARDUN</p> <hr/> <p>Thomas E. Pardun</p>	Director	September 22, 2003

EXHIBIT LIST

Exhibit Number	Description
2.1	Agreement and Plan of Merger to Form Holding Company, dated April 6, 2001, by and among Western Digital Corporation, Western Digital Technologies, Inc. (f/k/a Western Digital Corporation) and WD Merger Sub, Inc.(10)
2.2	Asset Purchase Agreement between Chapter 7 Trustee for the Bankruptcy Estate of Read-Rite Corporation and RR(US) Acquisition Corporation, dated July 24, 2003, including Option Agreements to purchase all of the outstanding capital stock of Read-Rite International, Sunward Technologies International, and Read Rite Holding Company(21)
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001(10)
3.2	Certificate of Amendment of Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on January 8, 2002(20)
3.3	Amended and Restated By-laws of Western Digital Corporation, adopted as of July 16, 2002(20)
4.1	Rights Agreement between Western Digital Corporation and American Stock Transfer & Trust Company, as Rights Agent, dated as of April 6, 2001, which includes as Exhibit A thereto the Form of Right Certificate to be distributed to holders of Rights after the Distribution Date (as that term is defined in the Rights Agreement)(10)
4.2	Form of Common Stock Certificate(1)
4.3	Certificate of Designations of Series A Junior Participating Preferred Stock of Western Digital Corporation, dated April 6, 2001(10)
10.1	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(3)*
10.1.1	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001(11)*
10.2	Western Digital Corporation Broad-Based Stock Incentive Plan(6)*
10.2.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001(11)*
10.3	Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, effective as of May 25, 2000(11)*
10.3.1	First Amendment to the Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001(11)*
10.4	Western Digital Corporation 1993 Employee Stock Purchase Plan (amended and restated as of November 14, 2002)(17)*
10.5	Amended and Restated Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, effective as of November 14, 2002(17)*
10.6	Western Digital Corporation Non-Employee Director Restricted Stock Unit Plan, effective March 28, 2003(18)*
10.7	Western Digital Corporation Incentive Compensation Plan(12)*
10.8	Amended and Restated Deferred Compensation Plan, effective March 28, 2003(18)*
10.9	Amended and Restated Executive Bonus Plan, effective March 28, 2003(18)*
10.10	Amended and Restated 401(k) Plan, adopted as of March 28, 2002(14)*
10.10.1	First Amendment to Western Digital Corporation 401(k) Plan, effective as of July 1, 2002(17)*
10.11	Western Digital Corporation Executive Retention Plan(2)*
10.12	Amended and Restated Long-Term Retention Agreement, between Western Digital Corporation and Matthew E. Massengill, effective as of December 20, 2002(17)*
10.13	Amended and Restated Long-Term Retention Agreement, between Western Digital Corporation and Arif Shakeel, effective as of December 20, 2002(17)*

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Exhibit Number	Description
10.14	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, effective December 1, 1999(5)*
10.14.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001(11)*
10.15	Western Digital Corporation Amended and Restated Change of Control Severance Plan, effective March 29, 2001(17)*
10.16	Letter agreement, dated October 19, 2001, by and between Western Digital Corporation and D. Scott Mercer(13)*
10.17	Letter agreement, dated October 30, 2002, by and between Western Digital Corporation and Charles William Frank(17)*
10.18	Form of Indemnity Agreement for Directors of Western Digital Corporation(16)
10.19	Form of Indemnity Agreement for Officers of Western Digital Corporation(16)
10.20	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(8)
10.21	Standard Industrial/ Commercial Single-Tenant Lease and Addendum No. 1, dated May 1, 2000, between One Morgan, LLC and Western Digital Corporation†
10.22	Lease Agreement, dated June 3, 1996, together with First Amendment, between South Bay/ Edenvale Associates and Western Digital Corporation†
10.23	Single Tenant Industrial Lease Agreement, dated as of August 24, 1992, between Shuwa Investments Corporation and Read-Rite Corporation, together with Second Amendment to Lease, dated as of May 28, 2002†
10.24	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(4)(7)
10.24.1	Amendment No. 1 to Volume Purchase Agreement by and between Western Digital Corporation and Komag, Inc. effective October 5, 2001(12)
10.24.2	Amendment No. 2 to Volume Purchase Agreement, effective as of October 17, 2002, among Western Digital Corporation, Komag, Inc. and Komag USA (Malaysia) Sdn.(17)(19)
10.25	Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated February 7, 2001(15)§
10.25.1	Amendment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated as of December 18, 2001(15)§
10.25.2	Amendment 2 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., effective as of June 19, 2002(15)
10.25.3	Third Amended and Restated Attachment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc., dated as of June 19, 2002(15)§
10.26	Supply Agreement for the Fabrication and Purchase of Semiconductor Products, dated June 13, 2002, among Marvell Semiconductor, Inc., Marvell Asia Pte. Ltd. and Western Digital Technologies, Inc.(18)§
10.27	Credit Agreement, dated as of September 20, 2000, among Western Digital Technologies, Inc., the other credit parties identified therein, General Electric Capital Corporation and Bank of America, N.A.(9)
10.27.1	First Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated March 8, 2001(11)
10.27.2	Second Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of March 23, 2001(11)
10.27.3	Third Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of April 7, 2001(11)

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Exhibit Number	Description
10.27.4	Fourth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of September 26, 2001(12)
10.27.5	Fifth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of December 21, 2001(13)§
10.27.6	Sixth Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of January 11, 2002(14)
10.27.7	Seventh Amendment to Credit Agreement, among Western Digital Technologies, Inc., the lenders identified therein, General Electric Capital Corporation and Bank of America, N.A., dated as of June 28, 2002(15)
10.28	Continuing Guaranty, between Western Digital Corporation and General Electric Capital Corporation, dated as of April 7, 2001(11)
21	Subsidiaries of Western Digital Corporation†
23	Consent of Independent Auditors†
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†

† New exhibit filed with this Report.

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

§ Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed separately with the Securities and Exchange Commission.

- (1) Incorporated by reference to the Company's Registration Statement on Form 8-B, filed April 13, 1987.
- (2) 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 November 10, 1998.
- (3) 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, 1999.
- (4) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on October 1, 1999.
- (5) 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 14, 2000.
- (6) 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 May 15, 2000.
- (7) Subject to confidentiality order dated June 27, 2000.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 28, 2000.
- (9) 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 November 13, 2000.
- (10) 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 April 6, 2001.
- (11) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 27, 2001.

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- (12) 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 November 13, 2001.
- (13) 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, 2002.
- (14) 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 May 6, 2002.
- (15) Incorporated by reference to the Company's Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 25, 2002.
- (16) 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 November 8, 2002.
- (17) 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 7, 2003.
- (18) 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 May 9, 2003.
- (19) Subject to confidentiality order dated May 13, 2003.
- (20) Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-107227), as filed with the Securities and Exchange Commission on July 22, 2003.
- (21) 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 August 15, 2003.

[AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION LOGO]

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE - NET

(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("LEASE"), dated for reference purposes only. May 1, 2000, is made by and between ONE MORGAN, LLC, a Delaware limited liability company ("LESSOR") and WESTERN DIGITAL CORPORATION, a Delaware corporation ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY").

1.2 PREMISES: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as One Morgan, City of Irvine, located in the County of Orange, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "PROJECT", if the Property is located within a Project) a freestanding concrete tilt-up industrial building containing approximately 59,213 square feet ("PREMISES"). (See also Paragraph 2)

1.3 TERM: ten (10) years and -0- months ("ORIGINAL TERM") commencing October 1, 2000 ("COMMENCEMENT DATE") and ending September 30, 2010 ("EXPIRATION DATE"). (SEE ALSO PARAGRAPH 3 AND PARAGRAPH 53 OF ADDENDUM NO. 1)

1.4 EARLY POSSESSION: July 1, 2000 ("EARLY POSSESSION DATE"). (See also Paragraphs 3.2 and 3.3)

1.5 BASE RENT: \$54,476 per month ("BASE RENT"), payable on the first (1st) day of each month commencing October 1, 2000. (See also Paragraph 4) [x] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. SEE PARAGRAPHS 50 AND 51 OF ADDENDUM NO. 1.

1.6 BASE RENT PAID UPON EXECUTION: \$54,476 as Base Rent for the period December 1, 2000-January 31, 2001.

1.7 SECURITY DEPOSIT: \$N/A ("SECURITY DEPOSIT"). (See also Paragraph 5)

1.8 AGREED USE: general offices, laboratories and incubator space for new Western Digital ventures. (See also Paragraph 6)

1.9 INSURING PARTY: Lessee is the "INSURING PARTY". (See also Paragraph 8)

1.10 REAL ESTATE BROKERS: (See also Paragraph 15)

(a) REPRESENTATION: The following real estate brokers (collectively, the "BROKERS") and brokerage relationships exist in this transaction (check applicable boxes):

[X] Collins Commercial Corporation represents Lessor exclusively ("LESSOR'S BROKER");

[X] Daum Commercial Real Estate Services represents Lessee exclusively ("LESSEE'S BROKER"); or

[] N/A represents both Lessor and Lessee ("DUAL AGENCY").

(b) PAYMENT TO BROKERS: Upon execution and delivery of this Lease by both Parties. Lessor shall pay to the Broker the fee agreed to in their separate written agreement.

1.11 GUARANTOR. The obligations of the Lessee under this Lease are to be guaranteed by N/A ("GUARANTOR"). (See also Paragraph 37)

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 59 and Exhibits A, all of which constitute a part of this Lease.

2. PREMISES.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("START DATE"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee within thirty (30) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in

good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "BUILDING") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessors expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) one year as to the foundations, (ii) three (3) years as to the HVAC systems, (iii) thirty (30) days as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("APPLICABLE REQUIREMENTS") in effect on the Start Date, Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility installations (as defined in Paragraph 7.3(a)) or "Tenant Improvements" (defined In Exhibit A) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within six (6) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in Paragraph 6.2(e) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("CAPITAL EXPENDITURE"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises

by Lessee as compared with uses by tenant in general, Lessee shall be fully responsible for the trust thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the provisions of Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last two years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice so Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 ACKNOWLEDGEMENTS. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use; (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises; and (c) neither Lessor, Lessor's agents, nor any Broker has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Broker has made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises; and (b) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 LESSEE AS PRIOR OWNER/OCCUPANT. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including, but not limited to, the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 DELAY IN POSSESSION. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing within ten (10) days after the end of such (60) day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said ten (10) day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have

enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within four (4) months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 LESSEE COMPLIANCE. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. RENT.

4.1. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("RENT").

4.2 PAYMENT. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

6. USE.

6.1 USE. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the

Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment on the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) LESSEE REMEDIATION. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) LESSEE INDEMNIFICATION. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. NO TERMINATION, CANCELLATION OR RELEASE AGREEMENT ENTERED INTO BY LESSOR AND LESSEE SHALL RELEASE LESSEE FROM ITS OBLIGATIONS UNDER THIS LEASE WITH RESPECT TO HAZARDOUS SUBSTANCES, UNLESS SPECIFICALLY SO AGREED BY LESSOR IN WRITING AT THE TIME OF SUCH AGREEMENT.

(e) LESSOR INDEMNIFICATION. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by total gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) INVESTIGATIONS AND REMEDIATIONS. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defines in Paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) LESSOR TERMINATION OPTION. If a Hazardous Substance Condition occurs during the term of this Lease, unless Lessee is legally

responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessors desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 LESSEE'S COMPLIANCE WITH APPLICABLE REQUIREMENTS. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE. Lessor and its employees, agents, and representatives and Lessor's "Lender" (as defined in Paragraph 30 below) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times and with reasonable prior notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority due to the actions of Lessee or its employees or agents. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspections, so long as such inspection is reasonably related to the violation or contamination.

7. MAINTENANCE; REPAIRS, UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS.

(a) IN GENERAL. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, heating, ventilating, air-conditioning, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior), foundations, ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) SERVICE CONTRACTS. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form

and substance for, and with contractors specifying and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drains, (vi) driveways and parking lots, (vii) clarifiers (viii) basic utility feed to the perimeter of the Building, and (ix) any other equipment, if reasonably required by Lessor.

(c) REPLACEMENT. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such Basic Elements, then such Basic Elements shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the number of months of the useful life of such replacement as such useful life is specified pursuant to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then commercially reasonable in the judgment of Lessor's accountants), with Lessee reserving the right to prepay its obligation at any time.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee, except that Lessor shall be responsible for making any repairs to the exterior roof and exterior walls, unless the need for the repair is due to the acts of Lessee or Lessee's employees or agents or invitees or permitted successors or assigns. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS. SEE PARAGRAPH 57 OF ADDENDUM NO. 1.

(a) DEFINITIONS; CONSENT REQUIRED. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements, other than Utility installations or Trade Fixtures, whether by addition or deletion. "LESSEE OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing exterior or load-bearing walls, and the cumulative cost thereof during this Lease as extended does not exceed \$50,000 in the aggregate or \$10,000 in any one year.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or \$10,000, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor. Lessor's failure either (a) to request further Information pertaining to the proposed Alterations or Utility Installations or (b) to disapprove Lessee's request for consent, within ten (10) business days commencing on the date when Lessor receives Lessee's request for consent, shall be deemed to be Lessor's approval of and consent thereto.

(c) INDEMNIFICATION. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the

validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) REMOVAL. By delivery to Lessee of written notice from Lessor not earlier than ninety (90) and not later than thirty (30) days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee Owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. INSURANCE; INDEMNITY. SEE PARAGRAPH 56 OF ADDENDUM NO. 1.

8.1 PAYMENT FOR INSURANCE. Lessee shall pay for all Insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of \$2,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$2,000,000 per occurrence within an "ADDITIONAL INSURED-MANAGERS OR LESSORS OF PREMISES ENDORSEMENT" and contain the "AMENDMENT OF THE POLLUTION EXCLUSION ENDORSEMENT" for damage caused by heat, smoke or fumes from a hostile fire. The Policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an 'insured contract' for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE - BUILDING IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any groundlessor, and to any Lender(s) insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$100,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) RENTAL VALUE. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one (1) year. Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of Rent from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 LESSEE'S PROPERTY/BUSINESS INTERRUPTION INSURANCE.

(a) PROPERTY DAMAGE. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$100,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 INSURANCE POLICIES. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required Insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters. Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "INSURED LOSS" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PARTIAL DAMAGE - INSURED LOSS. if a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10)

days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE - UNINSURED LOSS. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective sixty (60) days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within ten (10) days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate sixty (60) days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor or Lessee may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to the other within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) ABATEMENT. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) REMEDIES. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "COMMENCE" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 TERMINATION - ADVANCE PAYMENTS. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be

made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 WAIVE STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 DEFINITION OF "REAL PROPERTY TAXES." As used herein, the term "REAL PROPERTY TAXES" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, but as to any such increase imposed by reason of any change in the ownership of the Premises, shall include only those increases which are imposed due to changes in ownership of the Premises which occur after June 30, 2005.

10.2

(a) PAYMENT OF TAXES. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to Paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee shall fail to pay any required Real Property Taxes, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) ADVANCE PAYMENT. In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least ten (10) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor upon demand, such additional sums as are necessary to pay such obligations. All monies paid to Lessor under this Paragraph may be intermingled with other monies of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, at the option of Lessor, be treated as an additional Security Deposit.

10.3 JOINT ASSESSMENT. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 PERSONAL PROPERTY TAXES. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by

Lessor, of all charges jointly metered.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. SEE PARAGRAPH 58 OF ADDENDUM No. 1

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "ASSIGN OR ASSIGNMENT") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) A change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of fifty-one percent (51%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than fifty percent (50) of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "NET WORTH OF LESSEE" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon thirty (30) days written notice, increase the monthly Base Rent to one hundred ten percent (110%) of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to one hundred ten percent (110%) of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to One Hundred Ten Percent (110%) of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease; (ii) release Lessee of any obligations hereunder; or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$1,000 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. A "DEFAULT" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "BREACH" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of five (5) business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) a Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty(30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "DEBTOR" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the

Premises or of Lessee's interest in this Lease or where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph 13.1 (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false when made.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor; (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty; (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing; (iv) a Guarantor's refusal to honor the guaranty; or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within sixty (60) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 REMEDIES. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) 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 that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other reasonable and actual amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises (but in no event above the standard required by a normal commercial or industrial lessee), reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 INDUCEMENT RECAPTURE. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this lease, all of which concessions are hereinafter referred to as "INDUCEMENT PROVISIONS," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of Rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor 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, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to ten percent (10%) of each such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 INTEREST. Any monetary payment due Lessor hereunder, other than late charges, not received by lessor, when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the thirty-first (31st) day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus three percent (3%), but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 BREACH BY LESSOR.

(a) NOTICE OF BREACH. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "CONDEMNATION"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building portion of the Premises, or more than twenty-five percent (25%) at the land area portion of the Premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be

reduced in proportion to the reduction in utility these Premises caused by such Condemnation. Consolidation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. BROKERS' FEE.

15.3 REPRESENTATIONS AND INDEMNITIES OF BROKER RELATIONSHIPS.

Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or reasonable attorneys' fees reasonably incurred with respect thereto.

16. ESTOPPEL CERTIFICATES.

(a) Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "ESTOPPEL CERTIFICATE" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's Rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements ordinarily prepared by Lessee as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. DEFINITION OF LESSOR. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor, Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. DAYS. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. LIMITATION ON LIABILITY. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners or members of Lessor or its or their individual partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their

personal assets for such satisfaction.

21. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the other that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by certified or registered mail or U.S. Postal Service Express Mail or other reputable overnight courier service, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. Notices delivered by United States Express Mail or Federal Express or other overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver By Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The

acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred twenty-five percent (125%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS; CONSTRUCTION OF AGREEMENT. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMEN; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lessor's Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMEN. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor; or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "NON-DISTURBANCE AGREEMENT") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. ATTORNEYS' FEES. If any Party brings an action or proceeding involving the Premises to enforce the terms hereof or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "PREVAILING PARTY" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party of its claim or defense. The attorneys' fees award shall not be computed in accordance with any

court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times upon reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "FOR SALE" signs and Lessor may during the last six (6) months of the term hereof place on the Premises any ordinary "FOR LEASE" signs. Lessee may at any time place on or about the Premises any ordinary "FOR SUBLEASE" sign.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. SIGNS. Except for ordinary "For Sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements. SEE PARAGRAPH 55 OF ADDENDUM NO. 1.

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor not to exceed \$1,000 per request for consent by Lessee. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

37. GUARANTOR.

37.1 EXECUTION. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 DEFAULT. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. QUIET POSSESSION. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. OPTIONS.

39.1 DEFINITION. "OPTION" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises of other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of separate Default, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option,

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the attended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. MULTIPLE BUILDINGS. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises. Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. AUTHORITY. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. OFFER. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and

delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. MULTIPLE PARTIES. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. MEDIATION AND ARBITRATION OF DISPUTES. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease [] is [X] is not attached to this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED. THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

- 1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES, SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: TORONTO, CANADA
on: MAY 12/00
By LESSOR:

ONE MORGAN, LLC,
a Delaware limited liability company

By: /s/ [ILLEGIBLE]

Name Printed: [ILLEGIBLE]
Title: C.O.O.

By: _____
Name Printed: _____
Title: _____
Address: 620 Wilson Avenue, Suite 401,
Toronto, Ontario M3K 1Z3 Canada
Telephone: _____
Facsimile: _____
Federal ID No. 95-3251541

Executed at: Western Digital, Irvine Calif 92618
on: May 9, 2000
By LESSEE:

WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Steven M. Slavin

Name Printed: Steven M. Slavin
Title: Chairman of the Board/President/Vice Pres.
[circle one]

By: /s/ Michael A. Cornelius

Title: Secy. Asst. Secy./CF0/Asst. Treasurer
Address: [circle one] 8105 Irvine Center Dr.
Irvine, CA 92618
Telephone: (949) 932-5642
Facsimile: (949) 932-5775
Federal ID No. 95-2647125

NOTE: These forms are often modified to meet the changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 So. Flower Street, Suite 600, Los Angeles, California 90017.(213) 687-8777. Fax No. (213) 687-8616

ADDENDUM NO. 1

To

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE-NET

THIS ADDENDUM NO. 1 TO STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE-NET (the "Addendum") is made as of May 1, 2000, by and between ONE MORGAN, LLC, a Delaware limited liability company ("Lessor"), and WESTERN DIGITAL CORPORATION, a Delaware corporation ("Lessee"), with reference to the following facts:

A. Lessor and Lessee are parties to that certain Standard Industrial/Commercial Single-Tenant Lease-Net dated as of the date hereof (the "Lease"), which provides for Lessee's rental from Lessor of those certain premises commonly known as One Morgan, Irvine, California (the "Premises").

B. Lessor and Lessee desire to supplement and amend the Lease according to the terms and conditions set forth herein.

C. Defined terms used herein, unless otherwise provided, shall have the meanings set forth in the Lease.

NOW, THEREFORE, for valuable consideration the parties hereto agree as follows:

50. Base Rent.

50.1. First Three Year Period. The Base Rent from October 1, 2000 through September 30, 2003 shall be \$54,476 per month, subject to the rental abatement provisions of Paragraph 51 below;

50.2. Second Three Year Period. The Base Rent from October 1, 2003 through September 30, 2006 shall be \$59,379 per month;

50.3. Third Three Year Period. The Base Rent from October 1, 2006 through September 30, 2009 shall be \$64,723 per month; and

50.4. Final Year. The Base Rent from October 1, 2009 through September 30, 2010 shall be \$70,548 per month.

51. Rent Abatement. Notwithstanding anything to the contrary contained in Paragraph 1.5 of the Lease and Paragraph 50.1 above, provided Lessee shall fully and timely perform all of its duties and obligations hereunder prior, during and subsequent to the first twelve (12) months of the Original Term, the Base Rent shall be reduced from \$54,476 per month to \$0.00 from October 1, 2000 through November 30, 2000, and the Base Rent shall be reduced from \$54,476 per month to \$27,238 per month from December 1, 2000 through September 30, 2001. Lessee shall nonetheless be liable during this period of abated rent for the payment of Real Property Taxes, utilities, insurance premiums and all other charges required to be paid by Lessee throughout the Original Term. In the event of a Default by Lessee under the terms of the Lease, which Default remains uncured after the expiration of any applicable grace period, then as a part of the recovery set forth in Paragraph 13.3 of the Lease, Lessor shall be entitled to the recovery of the Base Rent that was abated under the provisions of this Paragraph 51, and such Base Rent shall not be deemed to have been forgiven or abated, but shall become immediately due and payable as unpaid rent which had been earned at the time of termination.

52. Condition of Premises.

52.1. "As Is" Condition. Except as otherwise provided in Paragraphs 2.2 and 2.3 of the Lease, Lessee shall accept the Premises in their then "as is" physical condition as of the Start Date, without any obligation on Lessor's part to make any repairs, improvements or alterations to the Premises, except for Lessor's obligation to fund the "T.I. Allowance" (as defined in Paragraph 3.1 of Exhibit A), and except that Lessor at Lessor's cost shall slurry seal and restripe the parking lot and driveway of the Premises within thirty (30) days after the date of due execution of this Lease.

52.2. No Delay in Commencement Date. Lessee understands and acknowledges that its completion of its desired "Tenant Improvements" (as defined in Paragraph 3.1 of Exhibit A) in the Premises per the provisions of Exhibit A is not a contingency to the occurrence of the Commencement Date, and the Commencement Date shall occur on October 1, 2000 regardless of the status of Lessee's work at that time.

53. Lessee's Early Termination Right. Provided that Lessee is not in Default or Breach under the Lease or this Addendum as of the date Lessor receives the "Termination Notice" (as defined below) and also on November 30, 2005, Lessee shall have the right to terminate the Original Term effective as of November 30, 2005. Lessee may exercise its termination right only by giving Lessor written notice (the "Termination Notice") not later than January 31, 2005, and by paying to Lessor concurrently with the delivery of the Termination Notice an amount equal to: (i) one-half of the "T.I. Allowance" (as defined in Paragraph 3.1 of Exhibit A attached hereto), plus (ii) one-half of the Brokers' real estate commissions, plus (iii) one-half of the cost of the slurry sealing and restriping of the parking lot and driveway referred to in Paragraph 52.1 above (collectively the "Termination Payment"). If Lessee timely and properly delivers the Termination Notice and concurrently pays the Termination Payment to Lessor, the Original Term shall terminate on November 30, 2005, and Lessee shall surrender and vacate the Premises in accordance with the provisions of Paragraph 7.4 of the Lease no later than November 30, 2005.

54. Options to Renew.

54.1. Grant. Subject to the provisions of Paragraph 39 of the Lease, and provided Lessee has not earlier exercised its early termination right set forth in Paragraph 53 above, Lessee shall have two (2) options (the "First Option" and "Second Option", respectively, sometimes each individually referred to as the "Option" and collectively as the "Options") to extend the Original Term for two (2) consecutive terms of five (5) years each (the "First Option Period" and the "Second Option Period", respectively, sometimes each individually referred to as the "Option Period" and collectively as the "Option Periods"). The First Option Period, if any, shall commence immediately following the expiration of the Original Term, on the terms and conditions set forth herein, and the Second Option Period, if any, shall commence immediately following the expiration of the First Option Period, on the terms and conditions set forth herein.

54.2. Exercise. Each Option may be exercised only by Lessee delivering to Lessor written notice of Lessee's unconditional exercise of the particular Option then being exercised; provided, however, that the First Option may be exercised no earlier than twelve (12) months and no-later than nine (9) months prior to the expiration of the Original Term, and the Second Option may be exercised no earlier than twelve (12) months and no later than nine (9) months prior to the expiration of the First Option Period. If Lessee fails to timely exercise

either Option in the manner herein specified, then that Option and any successive Option shall immediately and automatically terminate and be of no further force or effect on the ninth (9th) month prior to the expiration of the then term of the Lease, and Lessee shall have no other right or option to renew or extend the Lease. Time is of the essence with respect to the exercise of each Option.

54.3. Rent Determination. All provisions of the Lease and this Addendum shall continue in full force and effect during the Option Periods; provided, however, that the Base Rent for the first thirty (30) months of each Option Period shall be set at ninety five percent (95%) of the "Prevailing Market Rent" (as such term is defined below). Lessor and Lessee shall have thirty (30) days following the exercise of an Option in which to agree as to the Prevailing Market Rent for the Premises as of the first thirty (30) months of the Option Period in question. In the event Lessor and Lessee are unable to agree on the Prevailing Market Rent within such thirty (30) day period, the Prevailing Market Rent shall be determined as follows:

A. Within fifteen (15) days following the expiration of such thirty (30) day period for Lessor and Lessee to agree on the Prevailing Market Rent for the Premises for the first thirty (30) months of the Option Period in question, Lessor and Lessee shall each give written notice to the other designating by name, address and telephone number an M.A.I. appraiser having at least five (5) years experience in the appraisal of industrial properties in Orange County, California. Within fifteen (15) days following the selection of the second appraiser to be designated, the first two (2) appraisers shall select a third appraiser. The employment of each appraiser shall be conditioned on such appraiser's agreement to comply with the provisions of this Paragraph 54.3.A. Within thirty (30) days after the selection of the third appraiser, the three (3) appraisers so selected shall determine the Prevailing Market Rent for the Premises and each shall notify Lessor and Lessee in writing within such thirty (30) day period of the Prevailing Market Rent for the Premises determined by such appraisal. The Prevailing Market Rent for the Premises shall be determined by applying the following criteria:

(i) The Prevailing Market Rent shall be based on the net monthly base rent projected to be paid by tenants as of the first day of the Option Period in question, based on leases executed not earlier than six (6) months prior to the date the appraisers shall meet, for industrial building space comparable to the Premises in size (plus or minus 20%) and cosmetic condition, and with comparable tenant improvements as are in the Premises (whether paid for by Lessor or Lessee) and rent concessions, if any (collectively referred to herein as "PMR Criteria"), for industrial buildings located within a five (5) mile radius of the Premises (the "Comparison Area").

B. The two appraisals for the Prevailing Market Rent which arithmetically are the closest shall be added together and divided by two (2). The third appraisal shall be disregarded. An amount equal to ninety five percent (95%) of the quotient so derived shall be the Base Rent for the first thirty (30) months of the Option Period in question. Notwithstanding any provision of this Paragraph 54, however, the Base Rent during the first month of the First Option Period shall in no event be less than the Base Rent during the last month of the Original Term, and the Base Rent during the first month of the Second Option Period shall in no event be less than the Base Rent during the last month of the First Option Period.

C. Lessor and Lessee shall each pay the costs and fees of the appraiser selected by it. Lessor and Lessee

shall share equally the costs and fees of the third appraiser. In the event that either Lessor or Lessee does not identify an appraiser within the first fifteen day (15) period set forth in Paragraph 54.3.A above, the appraiser appropriately and timely identified shall alone render the appraisal based on the PMR Criteria.

D. Following the first thirty (30) months of each Option Period, the monthly Base Rent then in effect shall be increased by ten percent (10%), effective as of the first day of the thirty-first (31st) month of that Option Period, and such increased monthly Base Rent shall remain in effect for the balance of the then Option Period.

54.4. Additional Rent. In addition to Base Rent payable during the Option Periods, Lessee shall continue to be obligated to pay all Real Property Taxes and utilities and insurance premiums and other categories of charges required to be paid by Lessee throughout the Original Term, and all maintenance and repair obligations set forth in the Lease and this Addendum shall continue in full force and effect.

55. Signage Rights. Lessee at Lessee's sole cost shall have the right to install signage at the Premises indicating Lessee's corporate name and logo, subject to: (i) Lessee's compliance with all applicable governmental laws, codes and ordinances, and any recorded covenants, conditions and restrictions, and (ii) Lessor's prior written approval, not to be unreasonably withheld, as to the size, exact location, contents, graphics, materials and colors of such signage, (iii) Lessee's maintenance and repair of such signage, and (iv) Lessee's removal of such signage at Lessee's sole cost at the expiration or earlier termination of the Original Term and any Option Period, and restoration of such signage area to its condition presently existing, ordinary wear and tear excepted.

56. Insurance Limitations. Notwithstanding any provision to the contrary contained in Paragraphs 8.1 and 8.2(a) of the Lease, the limitations of Lessee's insurance coverage and Lessee's obligation to reimburse Lessor for the premium cost therefor during the Original Term shall be adjusted upward to such higher amounts as Lessor shall reasonably request from time to time.

57. Lessee's Contractor. Following the completion of the Tenant Improvements, the construction of any Alteration or Utility Installation thereafter by Lessee or Lessee's contractor shall be at Lessee's sole cost and expense and performed in a lien-free manner by a reputable California licensed contractor retained by Lessee who has been reasonably approved in advance by Lessor. The contractor shall have at least five (5) years experience in building tenant improvements similar to the proposed Alterations or Utility Installations and shall warrant to Lessee and for the benefit of Lessor that the Alterations or Utility Installations shall be free from any defects in workmanship and materials for a period of one (1) year from the date of completion of the Alterations or Utility Installations. The contractor's selection of the subcontractors who will perform work affecting the Utility Installations shall also be subject to Lessor's prior reasonable approval. As a condition to the contractor's commencement of work, Lessor shall receive from the contractor a certificate of insurance that names Lessor as an additional insured, from an insurer who complies with the requirements of Paragraph 8.5 of the Lease, and evidencing liability and property damage coverages reasonably acceptable to Lessor, plus statutorily-required workers compensation insurance as being in force through the anticipated completion date of the Alterations or Utility Installations, and providing that Lessor will receive at least thirty (30) days written notice of any

amendments to or cancellation of such coverage. The insurance shall be written on an occurrence basis form, and shall include endorsements for completed operations and broad form and contractually assumed liabilities, and shall be a non-reporting form. Lessee's contractor shall adhere to such governmental laws, ordinances, rules and regulations as may now or in the future be reasonably promulgated. Before Lessee makes payment to the contractor of the final unpaid balance of the contract amount, the contractor shall provide to Lessor "as-built" plans for the Alterations or Utility Installations in form reasonably acceptable to Lessor.

58. Assignment and Subletting. Notwithstanding any provision to the contrary contained in Section 12 of the Lease, Lessee shall have the right to enter into an assignment or sublease with any entity that is either a subsidiary of Lessee or under common ownership or control with Lessee (i.e. the persons owning a majority interest in the outstanding stock of Lessee are the same persons who own a majority interest in the outstanding stock of such affiliated corporation) without Lessor's consent, subject to Lessee giving Lessor advance written notice of any such assignment or sublease at least thirty (30) days prior to its effective date. In addition, any consent of Lessor to a proposed sublease or assignment (where required to be given) shall be deemed given if Lessor fails within ten (10) business days commencing on the date when it receives Lessee's request for consent either (a) to request further information pertaining to the proposed assignment or sublease or (b) to disapprove Lessee's request for consent.

59. Ratification. Except as otherwise expressly provided in this Addendum, all of the terms and conditions of the Lease are hereby ratified, confirmed and remain in full force and effect and shall be applicable to Lessee's rental of the Premises during the Original Term. The Lease and this Addendum contain the entire agreement of the parties with respect to Lessee's lease of the Premises and supersede all prior oral and written agreements, including without limitation: (i) Lessee's broker's letter dated March 24, 2000; (ii) Lessor's broker's letter of response dated March 27, 2000; (iii) Lessee's broker's letter of response dated March, 30, 2000; (iv) Lessor's broker's letter of response dated March 31, 2000; and (v) Lessee's broker's letter of response dated April 12, 2000.

IN WITNESS WHEREOF, the parties have entered into this Addendum as of the day and year first written above.

LESSOR: ONE MORGAN, LLC,
a Delaware limited liability company

By: /s/ [ILLEGIBLE]

Name: [ILLEGIBLE]
Its: [ILLEGIBLE]

Dated: May 12, 2000

LESSEE: WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Steven M. Slavin

Its Chairman of the Board/
President/Vice President

[Circle One]

By: /s/ Michael A. Cornelius

Its Secretary/Assistant Secretary/

Chief Financial Officer/Assistant
Treasurer [Circle One]

Dated: May 9, 2000

Exhibit A

TENANT IMPROVEMENT CONSTRUCTION ADDENDUM

1. Approval Process For Plans.

1.1. Space Planner and Preliminary Plan Approval.

Lessee shall retain, at Lessee's sole cost, an architect/space planner (the "Space Planner") familiar with the practices and procedures of the City of Irvine's Department of Building and Safety and reasonably acceptable to Lessor to prepare detailed plans and specifications for the "Tenant Improvements" (as such term is defined in Paragraph 3.1 below) to be constructed in the Premises (the "Plans"), which shall include a layout and designation of all walls, windows, offices, rooms, restrooms and other partitioning, and location of computer and telephone rooms, heavy equipment, plumbing requirements, corridors and any specific use items required by Lessee, and architectural and engineering drawings for the Tenant Improvements in a form which is sufficiently complete to allow a general contractor and subcontractors to bid on the job and to obtain all applicable governmental permits. The Plans shall include, without limitation, Lessee's finish schedule for interior decoration of the Premises including, without limitation, floor coverings or carpets, any special wall coverings, lighting or other fixtures, painting, finish hardware, detailed drawings of all shelving and cabinet work, locations of special electrical outlets, telephones, machinery, electrical equipment and plumbing fixtures. The architectural and engineering drawings shall include engineering working drawings for all work to the systems in the Premises (e.g., electrical, plumbing, HVAC, mechanical, fire/life-safety systems). Together with the Plans, Lessee shall deliver to Lessor such additional information regarding the Tenant Improvements as Lessor may reasonably request.

1.2. Lessor Approval of Plans. Lessor shall

approve or disapprove the Plans as soon as reasonably possible, but in no event later than ten (10) business days following Lessor's receipt thereof. Lessor's disapproval of the Plans shall be effected by Lessor's delivery to the Space Planner, as soon as reasonably possible but in no event beyond such ten (10) business day period, of a writing setting forth the reasonable basis for its disapproval. As soon as reasonably possible following delivery by Lessor of its reasonable objections, the Space Planner shall cause the Plans to be modified and delivered to Lessor. Lessor shall then approve or disapprove such modified Plans in the same manner as set forth above as soon as reasonably possible, but in no event later than ten (10) business days from Lessor's receipt thereof. This procedure shall be followed until all reasonable objections of Lessor have been resolved and the Plans have been approved by Lessor. Lessee's and Lessor's approval of the Plans shall be evidenced by their initialing and dating of each page thereof. Lessor's review of the Plans as set forth in this Paragraph 1 shall be for Lessor's sole purpose and shall not obligate Lessor to review the same for quality, design, fitness for Lessee's intended use of the Premises, compliance with applicable law or other like matters. The Plans as approved by Lessor shall be referred to herein as the "Final Plans." Lessor's failure within ten (10) business days commencing on the date when it receives Lessee's request for approval to the Plans or any modification thereof either (a) to request further information pertaining to such Plans or modification or (b) to disapprove Lessee's request for approval, shall be deemed to be Lessor's approval thereof.

1.3. Plan Check. Upon Lessor's approval of the Final Plans, Lessee shall cause the Space Planner to submit the Final Plans to the applicable department of the City of Irvine (the "City") for necessary plan checks and approvals as required by applicable law. Lessee shall cause the Space Planner to provide Lessor with reasonable advance notice of all its meetings with City personnel, so as to provide Lessor reasonable opportunity to have a representative accompany the Space Planner to such meetings as Lessor may desire, for purposes of allowing Lessor input on matters affecting the Premises. Lessee shall cause any and all plan check corrections to be made by the Space Planner, subject to Lessor's approval, as soon as reasonably possible following receipt of such corrections from the City.

1.4. Timely Performance. Lessee shall cause any plans, specifications, drawings, schedules and documents to be provided by the Space Planner under this Paragraph 1 to be prepared promptly and delivered to Lessor.

1.5. Exculpation. Notwithstanding Lessor's or Lessor's agents involvement in the preparation of any Plans, and Lessor's approval of the Final Plans, Lessor and its officers, directors, shareholders, employees, agents and contractors shall not have any liability in connection with any errors or omissions in such Plans, including the Final Plans.

2. Selection of Contractor.

2.1. Lessee's Selection. Lessee shall select the general contractor of its choice to construct the Tenant Improvements, so long as such general contractor is a California-licensed contractor reasonably acceptable to Lessor with a minimum of five (5) years experience in tenant improvement construction in industrial buildings, and such contractor is familiar with the building and safety requirements and procedures of the City of Irvine.

2.2. Lessee's Contractor. The qualified contractor selected by Lessee ("Lessee's Contractor") shall enter into a written contract with Lessee for the construction of the Tenant Improvements. Lessor shall have the right to review and reasonably approve in advance in writing the provisions of the contract between Lessee and Lessee's Contractor as relate to payment procedures, warranties, indemnities and insurance. Notwithstanding any of the foregoing, however, Lessor reserves the right to review and reasonably approve in advance Lessee's designated subcontractors for work affecting the electrical, plumbing, HVAC, fire/life-safety and mechanical systems of the Premises.

2.3. Construction Standards. Lessee's Contractor shall obtain all necessary permits for and construct the Tenant Improvements in strict accordance with all applicable codes, ordinances, regulations, laws and the Final Plans. The Tenant Improvements shall be constructed and completed lien-free and in a diligent and workmanlike manner. As a condition to Lessee's Contractor's commencement of work, Lessor shall receive from Lessee's Contractor a certificate of insurance that names Lessor as an additional insured, from an insurer meeting the requirements of Paragraph 8 of the Lease and Paragraph 57 of Addendum No. 1, and evidencing liability, property damage and "course of construction" coverages reasonably acceptable to Lessor, plus statutorily-required workers compensation insurance as being in force through the anticipated completion date of the Tenant Improvements, and providing that Lessor will receive at least thirty (30) days written notice of any amendments to or cancellation of such coverage. Lessee's Contractor shall warrant to Lessee and for the benefit of Lessor that the tenant improvements shall be free from any defects in workmanship and

materials for a period of one (1) year from the date of completion of the Tenant Improvements. Lessee's Contractor shall adhere to such governmental laws, ordinances, rules and regulations as may now or in the future be reasonably promulgated. Lessee shall permit Lessor or Lessor's representatives to observe the on-going construction within the Premises to insure compliance with Lessee's obligations under the Lease and this Exhibit A, so long as such observation does not interfere with Lessee's Contractor's activities. Promptly following the completion of the Tenant Improvements, Lessee shall obtain from Lessee's Contractor or the Space Planner and deliver to Lessor "as-built" or a record set (contained corrections made at the site) of plans for the Tenant Improvements in form reasonably acceptable to Lessor.

3. Tenant Improvement Allowance.

3.1. Allowance Amount. Provided that Lessee shall fully and timely perform all of its duties and obligations under the Lease, the Addendum and this Exhibit A during the Original Term, Lessor shall grant to Lessee a tenant improvement allowance in an amount not to exceed Seven Hundred Twenty Thousand Dollars (\$720,000) (the "T.I. Allowance"). The T.I. Allowance shall be used by Lessee only for: (i) costs of construction of improvements that are permanently affixed to the Premises and are included in the Final Plans; and (ii) Lessee's out-of-pocket fees and costs incurred in connection with architectural, engineering and space planning services pertaining to the Final Plans, and for governmental permits. Lessee shall not be entitled to receive or apply any unused portion of the T.I. Allowance for any other purpose, including without limitation the payment of any Rent due under the Lease or the Addendum. The improvements to be permanently affixed to the Premises as described in the Final Plans are collectively referred herein as the "Tenant Improvements". The T.I. Allowance shall be disbursed by Lessor in accordance with Paragraph 3.2 below.

3.2. Payment. Provided that Lessee is not then in Default under the Lease, the Addendum or this Exhibit A, the T.I. Allowance, or such lesser amount as may be necessary to reimburse Lessee for its Tenant Improvement costs, shall be paid by Lessor to Lessee in a lump sum payment equal to the T.I. Allowance, or a lesser amount as may be necessary to reimburse Lessee for the costs of its T.I. Improvements, following Lessee's delivery to Lessor of all of the following: (i) a written statement from the Space Planner and Lessee that the Tenant Improvements have been completed to Lessee's satisfaction; (ii) copies of all invoices from Lessee's Contractor, all subcontractors and all other suppliers of labor and material to the Tenant Improvements, whether or not being paid for out of the T.I. Allowance, pertaining to the work performed to date; (iii) copies of all applicable governmental permits, approvals and signed-off inspection cards, for all work completed for which payment is being sought; (iv) ink-executed mechanic's lien releases in compliance with the applicable provisions of California Civil Code Section 3262(d) from Lessee's Contractor and all other suppliers of labor and material to the Tenant Improvements having mechanics lien rights, or other documentary evidence satisfactory to Lessor that neither Lessee's Contractor nor any subcontractor, laborer or materialman has filed or threatened to file a mechanic's lien against the Premises, pertaining to the work performed to date; and (v) such other information and documentation pertaining to the Tenant Improvements as Lessor may reasonably request.

3.3. Alternative - Progress Payments of T.I. Allowance. In the alternative to the procedure set forth in Paragraph 3.2 above, Lessee may request Lessor to make payments

to Lessee of the T.I. Allowance in the following manner: provided that on or before the fifteenth (15th) day of each calendar month during the progress of the work Lessee delivers to Lessor all of the information and documentation referred to in clauses (ii) through (v) of Paragraph 3.2 and, in addition, a statement prepared by Lessee's Contractor, in a form approved by Lessor, showing by trade the schedule of percentage of completion of the Tenant Improvements, and detailing the portion of the work completed and the portion not completed, then, on or before the tenth (10th) business day of the following calendar month, provided no mechanic's liens have been recorded or threatened to be recorded, and provided further that Lessee is not then in Default of the Lease, Lessor shall deliver a check(s) to Lessee in payment of the amounts so requested, (but in no event shall the amount requested in any month be less than \$50,000, nor the aggregate amount paid exceed the amount of the T.I. Allowance), less a ten percent (10%) retention ("Retention"), provided that all documentation as set forth above has been provided to Lessor and has been approved by Lessor in all respects, including without limitation with respect to percentage of the work actually completed as compared to percentage of the T.I. Allowance requested to be paid to Lessee. Such check(s) may be joint payment. Each payment made pursuant to this Section 3.3 shall be subject to the following:

3.3.1. Percentage Completed. Under no circumstances shall any portion of the T.I. Allowance paid (including the corresponding Retention amount) exceed the percentage of the Tenant Improvements completed. By way of example, if the aggregate cost of the work is \$1,000,000 and twenty percent (20%) of the Tenant Improvements has been completed on the date when the request for payment is made by Lessee pursuant to Section 3.3 above, then the aggregate amount of the T.I. Allowance disbursed shall not exceed \$200,000 (less the Retention); and

3.3.2. Retention. The final Retention shall be paid by Lessor to Lessee five (5) calendar days following the last day that any mechanic's lien can lawfully be recorded against the Premises or the Project, provided that Lessee delivers to Lessor properly ink-executed mechanic's lien releases in compliance with California Civil Code Section 3262(d)(4), or other documentary evidence satisfactory to Lessor that all mechanic's lien rights in connection with Lessee's work have been finally and unconditionally waived, and neither Lessee's Contractor nor any subcontractor or laborer or materialman engaged by Lessee's Contractor has filed a mechanic's lien against the Project and provided further that no suits are threatened against Lessor, Lessee, Lessor's lender or the Project, or in the alternative, all liens shall be bonded in accordance with the provisions of California Civil Code Section 3143.

4. Construction by Lessee's Contractor. Except as otherwise provided in the Lease or this Exhibit A, Lessor shall not have any responsibility or obligations whatsoever for the design or construction of any of the Tenant Improvements or for the timeliness in completion of the Tenant Improvements, including deficiencies in the quality or adequacy of the labor or material constructed in the Premises. Lessee understands and acknowledges that the occurrence of the Commencement Date of the Original Term is not contingent on the completion of the Tenant Improvements by Lessee's Contractor.

LEASE AGREEMENT

1. Parties. This Lease, dated for reference purposes only, June 3, 1996, is made by and between SOUTH BAY/EDENVALE ASSOCIATES, a California general partnership, ("Landlord"), and WESTERN DIGITAL CORPORATION, a Delaware corporation ("Tenant").
2. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, upon the terms and conditions hereinafter set forth, those certain premises (the "Premises") presently known, as of the date of this Lease, as 5853 Rue Ferrari Drive, situated in the City of San Jose, County of Santa Clara, State of California, described as follows: for purposes of this Lease, the rentable square footage area of the Building shall be deemed to be approximately one hundred twenty-nine thousand six hundred (129,600) square feet located in that building commonly known as Building A (the "Building"), as shown cross-hatched on the site plan (the "Site Plan") attached hereto as Exhibit "A". The Building is located on a parcel legally described on Exhibit "B" attached hereto (the "Parcel") containing one other building, known as and referred to herein as "Building B" and a connecting corridor between Buildings "A" and "B", known as and referred to herein as "Building C." The total square footage of Building A and Building B is approximately two hundred eighty-six three hundred thirty square feet (286,330) (the "Buildings") as shown on the Site Plan. For purposes of calculating the Monthly Installment of Rent to be paid by Tenant for use of the Premises and calculating Tenant's Pro Rata Share (as defined in Section 7B below) fifty percent (50%) of the rentable square footage of Building C (which is equal to approximately one thousand three hundred twenty-five (1,325) square feet) has been added to the approximate square footage of Building A, resulting in a total rentable square footage of one hundred thirty thousand nine hundred twenty-five (130,925) square feet for the Premises. In the event Landlord subdivides the Parcel in the future into two (2) or more legal parcels, the term "Parcel" shall thereafter refer to the legal parcel on which the Premises are located, provided, any such subdivision shall not impair or reduce Tenant's parking rights under this Lease or access to the Premises. Landlord shall not be required to make any alterations, additions or improvements to the Premises except as set forth in this Lease, and the Premises shall be leased to Tenant in an "as-is" condition except as specifically provided in this Lease. Tenant shall construct all improvements to the Premises in accordance with Exhibit "C".
3. Term. The term of this Lease ("Lease Term") shall be for ten (10) years, commencing on August 1, 1996 (the "Commencement Date") and ending on July 31, 2006, unless sooner terminated pursuant to any provision hereof. If for any reason Landlord has not delivered possession of the Premises to Tenant on or before June 15, 1996, then Tenant shall have the option, exercisable by written notice given to Landlord within ten (10) days thereafter, to terminate this Lease. Upon exercising such option, all rights and obligations of Landlord and Tenant under this Lease shall terminate ab initio, and Landlord shall promptly refund to Tenant all prepaid rent paid by Tenant to Landlord in connection with this Lease. Notwithstanding any earlier completion of construction by Tenant, Tenant shall not be obligated to pay the Monthly Installment of rent, and Common Area Charges until the Commencement Date.
4. Rent.
 - A. Time of Payment. Tenant shall pay to Landlord as rent for the Premises the sum specified in Paragraph 4.B below (the "Monthly Installment") each month in advance on the first day of each calendar month, without deduction or offset, prior notice or demand, commencing on the Commencement Date and continuing through the term of this Lease,

together with such additional rents as are payable by Tenant to Landlord under the terms of this Lease. The Monthly Installment for any period during the Lease Term which period is less than one (1) full month shall be a prorata portion of the Monthly Installment based on the actual number of days in such month.

B. Monthly Installment.

(1) Initial Monthly Installment. The initial Monthly Installment of rent payable each month during the period from August 1, 1996 through and including July 31, 1998, shall be the sum of One Hundred Eight Thousand Thirteen and no/100ths Dollars (\$108,013.00) per month.

(2) Rental Adjustments. During the Lease Term, the Monthly Installment of rent shall be adjusted as follows:

Upon commencement of the twenty-fifty (25th); forty-ninth (49th); seventy-third (73rd); and ninety-seventh (97th) months of the Lease Term ("Rental Adjustment Periods"), the Monthly Installment of rent shall be adjusted by multiplying the Monthly Installment of rent payable during the period immediately prior to the Rental Adjustment Period by one hundred eight and sixteen hundredths percent (108.16%), which results in the following rental schedule:

Months of Lease Term -----	Monthly Installment -----
01 - 24	\$108,013.00 per month
25 - 48	\$116,827.00 per month
49 - 72	\$126,360.00 per month
73 - 96	\$136,671.00 per month
97 - 120	\$147,823.00 per month

C. Late Charge. Tenant acknowledges that late payment by Tenant to Landlord of 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, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord within ten (10) days after such amount shall be due, Tenant shall pay to Landlord, as additional rent, a late charge equal to four percent (4%) of such overdue amount. 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 its other rights and remedies granted hereunder.

D. Additional Rent. All taxes, insurance premiums, Common Area Charges, late charges, costs and expenses which Tenant is required to pay hereunder, together with all interest and penalties that may accrue thereon in the event of Tenant's failure to pay such amounts, shall be deemed to be additional rent ("Additional Rent") and shall be paid in addition to the Monthly Installment of rent.

- E. Place of Payment. Rent shall be payable in lawful money of the United States of America to Landlord at 511 Division Street, Campbell CA, or to such other person(s) or at such other place(s) as Landlord may designate in writing.
- F. Advance Payment. Concurrently with the execution of this Lease, Tenant shall pay to Landlord the sum of One Hundred Eight Thousand Thirteen and no/100ths Dollars (\$108,013.00) to be applied to the Monthly Installment of rent first accruing under this Lease.

5. Security Deposit. [INTENTIONALLY DELETED.]

6. Use of Premises. Tenant shall use the Premises only in conformance with governmental laws, regulations, rules and ordinances applicable to Tenant's business operations at and use of the Premises for the purpose of general office, marketing, sales, warehousing, distribution, light industrial manufacturing and assembly, research and development of electronics products, and any other related and legally permitted uses, and for no other purpose. Tenant shall indemnify, protect, defend, and hold Landlord harmless against any loss, expense, damage, attorneys' fees or liability arising solely out of the failure of Tenant to comply with any applicable law. Tenant shall not commit or suffer to be committed, any waste upon the Premises, or any nuisance, or other acts or things which may disturb the quiet enjoyment of any other tenant in the buildings adjacent to the Premises, or allow any sale by auction upon the Premises (except at the expiration or earlier termination of the Lease, Tenant may auction equipment in place from 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 place any harmful liquids in the drainage system of the Building. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises outside of the Building proper, except in trash containers placed inside exterior enclosures designated for that purpose by Landlord. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain on any portion of the Premises outside of the Building proper, except that Tenant may store its personal property in the storage areas or in the loading dock areas (comprising part of the Building A Exclusive Areas described in Paragraph 11A. below) exclusively reserved for Tenant's use and identified on the Site Plan attached hereto as Exhibit "A." Such storage shall be in compliance with all laws, rules, and regulations applicable thereto. Tenant's use of the Premises shall be subject to with the terms of Paragraph 39 below.

7. Taxes and Assessments.

- A. Tenant's Property. Tenant shall pay before delinquency any and all taxes and assessments, license fees and public charges levied, assessed or imposed upon or against Tenant's fixtures, equipment, furnishings, furniture, appliances and personal property installed or located on or within the Premises. Tenant shall cause said fixtures, equipment, furnishings, furniture, appliances and personal property to be assessed and billed separately from the real property of Landlord. If any of Tenant's said personal property shall be assessed with Landlord's real property, Tenant shall pay Landlord the taxes attributable to Tenant within thirty (30) days after receipt of a written statement from Landlord setting forth the taxes applicable to Tenant's property, together with a copy of Landlord's tax bill therefor.

B. Property Taxes. Tenant shall pay, as additional rent, its Pro Rata Share (as defined below) of all Property Taxes levied or assessed with respect to the land comprising the Parcel and with respect to all buildings and improvements located on the Parcel which become due or accrue during the term of this Lease. Provided that Landlord bills Tenant at least thirty (30) days prior to the delinquency date of such Property Taxes, Tenant shall pay such Property Taxes to Landlord at least ten (10) days prior to the delinquency date, and if Tenant fails to do so, Tenant shall reimburse Landlord, on demand, for all interest, late fees and penalties that the taxing authority charges Landlord. If Landlord bills Tenant less than thirty (30) days prior to the delinquency date of such Property Taxes, Tenant shall pay such Property Taxes to Landlord within thirty (30) days of the date of delivery of such bill to Tenant. Landlord's bill to Tenant shall include a copy of Landlord's tax bill from the taxing authority. In the event Landlord's mortgagee requires an impound for Property Taxes, then on the first day of each month during the Lease Term (commencing not less than thirty (30) days after written notice to Tenant that such impound account is so required), Tenant shall pay Landlord one twelfth (1/12) of its annual share of such Property Taxes. - Tenant's liability hereunder shall be prorated to reflect the Commencement Date and termination date of this Lease. If the amount of any such impound installment payments paid by Tenant exceeds Tenant's actual share of such Property Taxes after payment to the applicable taxing authority (exclusive of any interest or penalties arising from late payment) such excess shall be refunded to Tenant within thirty (30) days after the payment is made to the taxing authority.

As used in this Lease, the term "Tenant's Pro Rata Share" shall mean a fraction, expressed as a percentage, the numerator of which is the number of square feet of floor space contained in the Premises, inclusive of fifty percent of the square footage of Building C (130,925 square feet), and the denominator of which is the number of square feet of floor space contained in all of the Buildings (286,330 square feet) located on the Parcel. As of the Commencement Date, Tenant's Pro Rata Share is forty-five and seventy-three hundredths percent (45.73%).

For the purpose of this Lease, "Property Taxes" means and includes all taxes, assessments (including, but not limited to, assessments for public improvements or benefits), taxes based on vehicles, utilizing parking areas, taxes based or measured by the rent paid, payable or received under this Lease, taxes based upon, allocable to, or measured by the area of the Premises or the Buildings or the Parcel; taxes upon or with respect to the possession, leasing, operation, management, maintenance, alteration or repair of the Premises or any portion thereof; gross receipts tax, sales and/or use tax, water tax, sewer tax, employee tax, occupational license tax imposed upon Landlord or Tenant with respect to the Premises, any tax upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises, taxes on the value, use, or occupancy of the Premises, the Buildings and/or the Parcel, Environmental Surcharges, and all other governmental impositions and charges of every kind and nature whatsoever, whether or not customary or within the contemplation of the parties hereto and regardless of whether the same shall be extraordinary or ordinary, general or special, unforeseen or foreseen, or similar or dissimilar to any of the foregoing which, at any time during the Lease Term, shall be applicable to the Premises, the Buildings and/or the Parcel or assessed, levied or imposed upon the Premises, the Buildings and/or the Parcel, or become due and payable and a lien or charge upon the Premises, the Buildings and/or the Parcel, or any part thereof, under or by virtue of any present or future laws, statutes, ordinances,

regulations or other requirements of any governmental authority whatsoever. The term "Environmental Surcharges" shall mean and include any and all expenses, taxes, charges or penalties imposed by the Federal Department of Energy, the Federal Environmental protection Agency, the Federal Clean Air Act, or any regulations promulgated thereunder or any other local, state or federal governmental agency or entity now or hereafter vested with the power to impose taxes, assessments, or other types of surcharges as a means of controlling or abating environmental pollution or the use of energy. The term "Property Taxes" shall not include (a) any federal, state or local income, franchise, estate, gift or inheritance tax, (b) any transfer taxes, recording fees, or monument preservation fees, (c) any license or similar fees imposed to permit the conduct of Landlord's business, (d) that portion of any tax, fee or encumbrance that would otherwise come within the definition of "Property Taxes" but which is assessed or imposed with respect to the operations, activities of any tenant or occupant other than Tenant, (e) fuel taxes on Landlord's vehicles, sales taxes on Landlord's purchases, withholding taxes for Landlord's employees and Landlord's business license, (f) any tax imposed on Landlord as a result of it financing or refinancing the Parcel, or any portion thereof, or as a result of Landlord's secured lender foreclosing on the Parcel (except Property Taxes shall include any increased taxes resulting from a change of ownership following any foreclosure of the Parcel), or (g) any interest or penalties imposed as a result of Landlord's failure to comply with applicable law, including, without limitation, Landlord's failure to pay its taxes timely, unless such failure arises from Tenant's acts, negligence, willful misconduct or breach of this Lease. The term "Environmental Surcharge" shall not include any expense, tax, penalty or other charges imposed as a result of (a) any environmental contamination not caused by Tenant or its Agents, (b) the operations or activities of any tenant or occupant other than Tenant, or (c) Landlord's failure to comply with applicable law, unless such failure arises from Tenant's acts, negligence, willful misconduct or breach of this Lease.

8. Insurance.

- A. Indemnity. Tenant agrees to indemnify, protect and defend Landlord against and hold Landlord harmless from any and all claims, causes of action, judgments, obligations or liabilities, and all reasonable expenses incurred in investigating or resisting the same (including reasonable attorneys' fees), on account of, or arising out of, the operation, maintenance, use or occupancy of the Premises and all areas appurtenant thereto by Tenant or Tenant's agents, employees, contractors, guests, invitees or licensees. This Lease is made on the express understanding that Landlord shall not be liable for, or suffer loss by reason of, injury to person or property, from whatever cause (except for negligence or willful misconduct of Landlord or its Agents), which in any way may be connected with the operation, use or occupancy of the Premises by Tenant or Tenant's agents, employees, contractors, guests, invitees or licensees, specifically including, without limitation, any liability for injury to the person or property of Tenant, its agents, officers, employees, licensees and invitees. The obligations of Tenant under this Paragraph 8.A shall survive the expiration or earlier termination of this Lease.
- B. Liability Insurance. Tenant shall, at Tenant's expense, obtain and keep in force during the term of this Lease a policy of commercial general liability insurance insuring Landlord and Tenant against claims and liabilities arising out of the operation, use, or occupancy of the Premises and all areas appurtenant thereto, including parking areas. Such insurance shall be in an amount of not less than Three Million Dollars (\$3,000,000.00) for bodily injury

or death as a result of any one occurrence and Five Hundred Thousand Dollars (\$500,000.00) for damage to property as a result of any one occurrence. The insurance shall be with companies rated A X or better by A. M. Best insurance rating. Tenant shall deliver to Landlord, prior to possession, and at least thirty (30) days prior to the expiration thereof, a certificate of insurance evidencing the existence of the policy required hereunder and such certificate shall certify that the policy (1) names Landlord as an additional insured, (2) shall not be canceled or the coverage or amount of coverage reduced without thirty (30) days prior written notice to Landlord, (3) insures performance of the indemnity set forth in Paragraph 8.A above, (4) the coverage is primary and any coverage by Landlord is in excess thereto and (5) contains a cross-liability endorsement or its equivalent (i.e. a separation of insured provision in the basic comprehensive liability insurance policy). Landlord may maintain a policy or policies of comprehensive general liability insurance (or commercial general liability insurance) insuring Landlord (and such others as are designated by Landlord), against liability for personal injury, bodily injury, death and damage to property occurring or resulting from an occurrence in, on or about the Premises or the Common Area, with such limits of coverage as Landlord may from time to time determine are reasonably necessary for its protection. The cost of any such liability insurance maintained by Landlord shall be a Common Area Charge and Tenant shall pay, as additional rent, its share of such cost to Landlord as provided in Paragraph 12 below.

- C. Property Insurance. Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Premises and the Buildings, in the amount of the full replacement value thereof, providing protection against those perils included within the classification of "all risk" insurance, plus a policy of rental income insurance in the amount of one hundred percent (100%) of twelve (12) months rent (including, without limitation, sums payable as Additional Rent), plus, at Landlord's option, flood insurance and earthquake insurance, and any other coverages which may be required from time to time by Landlord's mortgagee. Landlord shall furnish to Tenant, within twenty (20) days after written request by Tenant, a certificate from Landlord's insurance carrier evidencing that the insurance coverage required to be carried by Landlord is in effect. Tenant shall have no interest in nor any right to the proceeds of any insurance procured by Landlord on the Premises except as specifically provided in this Lease.

Provided that Landlord bills Tenant at least thirty (30) days prior to the due date of the premium for such insurance procured and maintained by Landlord, Tenant shall pay Tenant's Pro Rata Share of such premium to Landlord at least ten (10) days prior to the due date, and if Tenant fails to do so, Tenant shall reimburse Landlord, on demand, for all interest, late fees and penalties that the insurance carrier charges Landlord. If Landlord bills Tenant less than thirty (30) days prior to the due date of such insurance premium, Tenant shall pay Tenant's Pro Rata Share of such premium to Landlord within thirty (30) days of the date of delivery of such bill to Tenant. Landlord's bill to Tenant shall include a copy of the insurance carrier's invoice to Landlord. In the event Landlord's mortgagee requires an impound for insurance premiums, then on the first day of each month during the Lease Term (commencing not less than thirty (30) days after written notice to Tenant that such impound account is so required), Tenant shall pay Landlord one twelfth (1/12) of its annual Pro Rata Share of such insurance premiums. If the amount of any such impound installment payments paid by Tenant exceeds Tenant's actual share of such insurance premiums after payment to Landlord's insurer (exclusive of any penalties for

late payment) such excess shall be refunded to Tenant within thirty (30) days after the payment is made to Landlord's insurer.

Tenant acknowledges that such insurance procured by Landlord shall contain a commercially reasonable deductible which reduces Tenant's cost for such insurance and, in the event of loss or damage, Tenant shall be required to pay to Landlord the amount of such deductible (which, exclusive of the deductible applicable to the earthquake insurance coverage, shall not exceed Twenty Thousand Dollars (\$20,000) without Tenant's prior written approval). Tenant further acknowledges that the insurance carried by Landlord does not cover, and Landlord has no obligation to insure, the improvements installed by Tenant pursuant to Exhibit "C", or any alterations, additions or improvements thereto.

D. Tenant's Insurance; Release of Landlord. Tenant acknowledges that the insurance to be maintained by Landlord on the Premises pursuant to Subparagraph C above will not insure any of Tenant's property. Accordingly, Tenant, at Tenant's own expense, shall maintain in full force and effect on all of its fixtures, equipment, leasehold improvements and personal property in the Premises, a policy of "All Risk" coverage insurance to the extent of at least ninety percent (90%) of their insurable value. The foregoing notwithstanding, Tenant may elect to self-insure Tenant's fixtures, equipment and personal property (but not leasehold improvements). Tenant hereby releases Landlord, and its partners, officers, agents employees and servants from any and all claims, demands, losses, expenses or injuries to the Premises or to the furnishings, fixtures, equipment, inventory or other personal property of Tenant in, about, or upon the Premises, which are caused by perils, events or happenings where the same are covered by the insurance required by this Lease or which are the subject of insurance carried by Tenant and in force at the time of such loss (and then only to the extent of such insurance proceeds payable thereunder). Tenant shall procure an appropriate clause in, or an endorsement to, all policies required by this Lease or any other insurance policy maintained by Tenant with respect to the Premises or Tenant's occupancy thereof, pursuant to which the insurance company or companies waive subrogation or consent to a waiver of a right of recovery against Landlord.

E. Waiver of Subrogation. Notwithstanding any provision of this Lease to the contrary, Landlord and Tenant each hereby waive, for themselves and their respective insurers, any and all rights of recovery against the other for any loss or damage occasioned to such waiving party or its property or the property of others under its control (and whether or not such loss or damage is due to the neglect or fault of a party) to the extent such loss or damage is insured, or is required hereunder to be insured, against under any casualty insurance policy existing for the benefit of the respective parties at the time of such loss or damage. Each party shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver.

9. Utilities. Tenant shall pay for all water, gas, light, heat, power, electricity, telephone, trash pickup, sewer charges and all other services supplied to or consumed on the Premises and separately metered to or chargeable exclusively to the Premises, and all taxes and surcharges thereon. In addition, the cost of any utility services supplied to the Common Area or not separately metered to the Premises shall be a Common Area Charge and Tenant shall pay its share of such costs to Landlord as provided in Paragraph 12 below. Landlord shall promptly install a separate water meter for the Premises, at Landlord's sole cost and expense. If, after the Commencement Date, water is not separately metered to the Premises, then Tenant shall pay a reasonable proportion (as reasonably determined by Landlord) of the jointly metered water

charges, as a Common Area Charge, until such time as Landlord separately meters the Premises as provided for hereinabove.

The parties hereto acknowledge that heating, ventilation and air conditioning (HVAC) serving Building C is provided mostly through the Building and power and lighting serving Building C is provided through Building A. The parties hereto intend and agree that Tenant shall pay approximately one-half (1/2) of the cost of such utilities serving Building C and that the tenant of Building B (or Landlord if Building B is not leased or such tenant of Building B is not obligated to pay its share of such utilities) shall pay the remaining approximately one-half (1/2) of the cost of such utilities. In order to equalize the sharing of such utilities' cost applicable to Building C, the parties hereto agree that not later than July 15, 1996, Landlord shall cause, at Landlord's sole expense, a consultant (selected by Landlord and reasonably approved by Tenant and the tenant of Building B) to survey the utilities serving Building C and the costs of providing the same. Based upon such survey, the consultant will determine the amount that Tenant and the tenant of Building B (or Landlord if Building B is not leased or such tenant of Building B is not obligated to pay its share of such utilities) shall be obligated to pay, respectively, in order that each of them bear during each year of the Lease Term (prorated for any partial calendar year) approximately fifty percent (50%) of the costs of such utilities serving Building C. If, based on such survey (or subsequent survey as described below), it is determined that Tenant is bearing less than fifty percent (50%) of the cost of such utilities serving Building C, then Tenant shall pay to the tenant of Building B (or to Landlord, as the case may be), an amount equal to that which, when added to the portion of the utilities costs estimated by the consultant to be borne by Tenant during the preceding calendar year (prorated for any partial year), shall equal fifty percent (50%) of the costs of the utilities serving Building C. If, based on such survey (or subsequent survey as described below), it is determined that Tenant is bearing more than fifty percent (50%) of the cost of such utilities serving Building C, then the tenant of Building B (or Landlord if Building B is not leased or the tenant of Building B is not obligated to pay its share of such Building C utilities) shall pay to Tenant an amount equal to that which, when added to the portion of the utilities costs estimated by the consultant to be borne during the preceding calendar year (prorated for any partial year) by the tenant of Building B or Landlord, as the case may be, shall equal fifty percent (50%) of the costs of the utilities serving Building C. Payment shall be made within thirty (30) days after receipt by Tenant (if payment is owed by Tenant) or by the tenant of Building B or Landlord, as the case may be, of an invoice setting forth the amount due with respect to the preceding calendar year (or portion thereof) within the Lease Term. Consistent with the foregoing, the parties hereto agree that Tenant's obligation to equalize the costs of utilities serving Building C for calendar year 1996 shall only be applicable to the period of August 1, 1996 through December 31, 1996. The obligation to equalize the costs of utilities serving Building C shall survive the expiration or earlier termination of this Lease but only with respect to utilities consumed in Building C within the Lease Term. It is contemplated hereunder that Tenant and the tenant of Building B will be the parties responsible for equalizing the amount of the utilities costs applicable to Building C and that Landlord shall not be involved in such equalization process or obligated to pay for any portion of the utilities serving Building C unless there is no tenant of Building B at the time such equalization is applicable or the tenant of Building B is not obligated to bear its fifty percent share of the cost of the Building C utilities.

At any time during the Lease Term, but in no event more than once in any calendar year, Tenant, Landlord or the tenant of Building B shall have the right to retain a consultant selected by it and reasonably approved by the others to undertake a survey of the utilities serving Building C and the costs of providing the same. Based upon such completed survey, the sharing of costs of utilities serving Building C shall be readjusted so that Tenant and the tenant of Building B (or Landlord if Building B is not leased or the tenant of Building B is not obligated to pay its share of such Building C utilities) each pay fifty percent (50%) of the costs of utilities serving Building C.

Set forth below is an illustrative example of the manner in which the costs of utilities serving Building C are to be equalized. Suppose that the initial consultant determines that the costs of HVAC service to Building C (which is read on the meter in Building B) equals Six Hundred Dollars (\$600) per month and the costs of power and lighting service to Building C (which is read on the meter in Building A) equals Three Hundred Dollars (\$300) per month. Based on the foregoing, the tenant of Building B is paying Six Hundred Dollars (\$600) of the Nine Hundred Dollars (\$900) of Building C utilities costs. Since the tenant of Building B should only be paying fifty percent (50%) of the total Building C utilities costs (i.e., \$450), the Tenant should reimburse the tenant of Building B, not later than January 30 of the applicable year, an amount equal to One Hundred Fifty Dollars (\$150) per month (or One Thousand Eight Hundred Dollars (\$1,800) per year (prorated for any partial year)) to equalize the payment of Building C utilities costs.

Tenant shall store its waste either inside the Premises or in its own dumpsters located within the now existing outside trash enclosures. Tenant shall not at any time store, place or maintain any garbage, trash, rubbish, other refuse or Tenant's personal property in any area of the Common Areas or exterior of the Premises (except in the outside dumpsters and in any storage areas which have been designated for Tenant's exclusive use and are identified on Exhibit A attached hereto). Tenant at its sole expense shall be responsible to maintain and keep the designated trash enclosures and Common Areas free of garbage, trash, rubbish and other refuse of Tenant or Tenant's personal property.

10. Repairs and Maintenance.

- A. Landlord's Repairs. Subject to provisions of Paragraph 16, Landlord shall keep and maintain the structural elements of the Building in good order and repair. Tenant shall not be required to reimburse Landlord for the cost of maintenance and repairs of the structural elements of the Building unless such maintenance or repair is required because of the negligence or willful misconduct of Tenant or its employees, agents or invitees. As used herein, the term "structural elements of the building" shall mean and be limited to the foundation, footings, floor slab (but not flooring), structural walls, and roof structure (but not roofing or roof membrane). Landlord shall have no obligation to make repairs to the structural elements of the Building under this Subparagraph until a reasonable time after receipt of written notice from Tenant of the need for such repairs. However, in the event of circumstances posing imminent risk of personal injury or property damage, Tenant, upon notice to Landlord, shall have the right, but not the obligation, to make such repairs and Landlord shall reimburse Tenant the reasonable cost thereof within thirty (30) days after presentation of Tenant's invoice.

As provided in Paragraph 11, Landlord shall keep and maintain the driveways, parking areas, walkways, landscaped areas and the roofing and roof membrane of Building "C" ("Common Area") in good order and repair. Tenant shall reimburse Landlord, as additional rent, within thirty (30) days after receipt of billing, its Pro Rata Share of the cost of such repairs and maintenance of the Common Areas, which are the obligation of Landlord hereunder.

- B. Tenant's Repairs. Except as expressly provided in Subparagraph A above and subject to Paragraphs 16 and 17 below, Tenant shall, at its sole cost, keep and maintain the entire Premises and every part thereof and the Building A Exclusive Common Area (defined in

Paragraph 11.A below) in the same condition as delivered to Tenant by Landlord, ordinary wear and tear excepted, including without limitation the exterior walls, roof, roof membrane, the windows, window frames, plate glass, glazing, skylights, truck doors, doors and all door hardware, the walls and partitions, and the electrical, plumbing, lighting, heating, ventilating and air conditioning systems and equipment. The term "repair" shall include replacements, restorations and/or renewals when necessary as well as painting. Tenant's obligation shall extend to all alterations, additions and improvements to the Premises and the Building A Exclusive Common Area, and all fixtures and appurtenances therein and thereto. Landlord hereby assigns to Tenant all of its rights and interests under all manufacturer and installation warranties covering the heating, ventilation and air conditioning ("HVAC") equipment or other fixtures or personal property within the Premises and agrees to reasonably cooperate, at no cost to Landlord, with Tenant in enforcing such warranties.

Should Tenant fail to commence making repairs required of Tenant hereunder forthwith upon thirty (30) days notice from Landlord or should Tenant fail thereafter to diligently complete the repairs, Landlord, in addition to all other remedies available hereunder or by law and without waiving any alternative remedies, may make the same, and in that event, Tenant shall reimburse Landlord as additional rent for the cost of such maintenance or repairs within thirty (30) days of written demand by Landlord. In the event Tenant is required to effect repairs or replacements to the Premises which are capitalized under generally accepted accounting principles, Tenant shall submit the estimated cost thereof to Landlord for Landlord's reasonable approval prior to undertaking such repair or replacement. Following approval by Landlord of the cost, and completion of the work by Tenant, Landlord shall reimburse Tenant, within thirty (30) days after receipt of Tenant's invoice, that portion of the capitalized cost which is determined by multiplying the capitalized cost by a fraction, the numerator of which is the estimated useful life (in months) of such repair or replacement reduced by the then remaining Term of the Lease, and the denominator of which is the estimated useful life of such repair or replacement.

Landlord shall have no maintenance or repair obligations whatsoever with respect to the Premises or the Building A Exclusive Area except as expressly provided in Paragraphs 10.A and 11. Tenant hereby expressly waives the provisions of Subsection 1 of Section 1932 and Sections 1941 and 1942 of the Civil Code of California and all rights to make repairs at the expense of Landlord as provided in Section 1942 of said Civil Code. There shall be no allowance to Tenant for diminution of rental value, and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from the making of any repairs, alterations, decorations, additions or improvements in or to any portion of the Premises, the Building, the Common Area or the Building A Exclusive Areas (or any of the areas used in connection with the operation thereof, or in or to any fixtures, appurtenances or equipment), or by reason of the negligence of Tenant or any other tenant or occupant of the Parcel. Landlord shall use reasonable efforts to minimize the disruption to Tenant's business resulting from such activities by Landlord or its Agents. In no event shall Landlord be responsible for any consequential damages arising or alleged to have arisen from any of the foregoing matters. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers, or any other person in or about the Premises, the Building, or the Common Area, nor shall Landlord be liable for injury to the person of

Tenant, Tenant's employees, agents or contractors whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said damage or injury results from any other cause, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the Building or the Parcel. However, the provisions of this subparagraph 10.B shall not apply in the event of the negligence or willful misconduct of Landlord or its Agents, but in no event shall Landlord be liable for consequential damages, including without limitation, lost profits or loss of business.

11. Common Area.

A. Definitions. The term "Common Areas" shall mean all areas and facilities outside the Premises and within the exterior boundary line of the Parcel (excluding, however, Building B, those areas designated as Building A Exclusive Areas on Exhibit "A" attached hereto and made a part hereof, and those areas designated as Building B Exclusive Areas on Exhibit "A" attached hereto) that are provided and designated by Landlord from time to time for the general non-exclusive use of Landlord, Tenant, and of other tenants and other authorized users of the Buildings and the respective employees, suppliers, shippers, customers and invitees of the aforementioned parties, including, but not limited to parking areas (excluding those parking spaces comprising part of the Building A Exclusive Areas or Building B Exclusive Areas), loading and unloading areas, trash areas, roadways, sidewalk, walkways, parkways, ramps, driveways, landscaped areas and decorative walls. Common Areas shall also include all of Building C. Area 18 designated on the Site Plan attached hereto as Exhibit "A" shall also comprise part of the Common Area and shall be for the shared use of Landlord, Tenant and the tenant of Building B.

The term "Project" shall mean the Premises, the Buildings, the Parcel, the Common Areas and all improvements now or hereafter situated therein or thereon.

B. Tenant's Rights. From and after the Commencement Date, Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, agents, contractors, suppliers, shippers, customers and invitees, during the term of the Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges expressly reserved by Landlord under the terms hereof. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas, excluding vehicle parking and temporary storage of property incidental to Tenant's use of loading and unloading areas. In the event that any unauthorized storage shall occur, the Landlord shall have the right, with notice (except in the event of an emergency, in which event notice to Tenant need not be given), in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

- C. Exclusive Area Rights. Tenant shall have the exclusive right to use the Building A Exclusive Areas (designated as Area 19 on the Site Plan attached hereto as Exhibit "A" attached hereto) including, without limitation, the loading docks adjacent to Building A, for the specific purposes or uses identified on Exhibit "A" attached hereto, provided such purposes or uses are in compliance with all laws, rules and regulations applicable thereto. Landlord's approval of Tenant's use of the Building A Exclusive Areas for the specific purposes identified on Exhibit "A" attached hereto shall be conditioned upon Tenant obtaining any and all permits, licenses or approvals from the applicable governmental agency or agencies required with respect to such specific uses. Tenant acknowledges that the ATM machine in Building C is, and shall continue to be, the personal property of the tenant of Building B.

Landlord or, if included in the terms of any lease of Building B, any tenant of Building B, shall have the exclusive right to use those areas designated on Exhibit "A" as the Building B Exclusive Areas (i.e. Areas 1-17 as shown on the Site Plan attached hereto as Exhibit "A"), including, without limitation, the loading docks adjacent to Building B. Tenant shall have no right to use all or any portion of the areas designated as Building B Exclusive Areas (as shown on Exhibit "A" attached hereto) without the prior written consent of Landlord or, if applicable the tenant of Building B (which consent may be given or withheld in the sole and absolute discretion of Landlord or the tenant of Building B, as the case may be).

- D. Rules and Regulations; Landlord's Rights. Tenant's use of the Common Area shall be subject to the terms and conditions of this Lease and such rules and regulations as Landlord may from time to time prescribe. This right and Tenant's right to use the Building A Exclusive Areas shall terminate upon the termination of this Lease. Landlord reserves the right from time to time to make changes in the shape, size, location, amount and extent of the Common Area; provided that such change shall not interfere with Tenant's access to and from the Premises, reduce the number of parking spaces to which Tenant is entitled hereunder, or otherwise materially impair Tenant's rights under this Lease. Landlord further reserves the right to promulgate such reasonable and uniform rules and regulations relating to the use of the Common Area, and any part or parts thereof, as Landlord may deem appropriate for the best interest of the occupants of the Project. The rules and regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant, and Tenant shall abide by them and cooperate in their observance. Such rules and regulations may be amended by Landlord from time to time, with or without advance notice, and all amendments shall be effective upon delivery of a copy of them to Tenant.

- E. Parking. Tenant shall have the non-exclusive use of no more than four hundred forty-five (445) of the parking spaces in the Common Area. Tenant shall not at any time park or permit the parking of Tenant's trucks or other vehicles, or the trucks or other vehicles of others, adjacent to loading areas for Building B so as to interfere in any way with the use of such areas, nor shall Tenant at any time park or permit the parking of Tenant's vehicles or trucks, or the vehicles or trucks of Tenant's suppliers or others, in any portion of the Common Area not designated by Landlord for such use by Tenant. Tenant shall not abandon any inoperative vehicles or equipment on any portion of the Common Area. Tenant shall make no alterations, improvements or additions to the Common Area.

The number of parking spaces that would otherwise be located within the Building A Exclusive Areas as shown on Exhibit "A" attached hereto shall be counted against the total of four hundred forty-five (445) non-exclusive spaces allocated to Tenant as provided above, notwithstanding that Tenant may elect to use a portion of such exclusive areas originally designated for parking for other purposes as noted on Exhibit "A". Tenant shall not use more parking spaces than the four hundred forty-five (445) spaces allocated to Tenant.

- F. Maintenance. Landlord shall operate, manage, insure, maintain and repair the Common Area in good order, condition and repair. Without limiting the foregoing, Landlord shall keep and maintain the driveways, parking areas, walkways, landscaped areas, exterior lighting, irrigation systems, fences, curbs, gutters, drainage systems, and all other facilities within the Common Area (including, without limitation, utility systems located therein), and Building C, in good order and repair. The cost of such repair, maintenance, operation, insurance and management shall be a Common Area Charge and Tenant shall pay to Landlord its Pro Rata Share of such costs as provided in Paragraph 12 below.

The foregoing notwithstanding, Tenant shall operate, manage, insure, maintain and repair the Building A Exclusive Areas in good order, condition and repair.

12. Common Area Charges. Tenant shall pay to Landlord, as additional rent, within thirty (30) days after presentation of an invoice therefor, but not more often than once each calendar month, an amount equal to its Pro Rata Share of the Common Area Charges as defined in Paragraphs 8.C, 9, and 11 of this Lease. Tenant acknowledges and agrees that the Common Area Charges shall include an additional five percent (5%) of the actual Common Area Charges (excluding insurance premiums) in order to compensate Landlord for accounting, management and processing services. Provided Tenant gives Landlord not less than five (5) days prior written notice, Tenant shall have the right, not more often than twice during any calendar year, to inspect and make copies at Tenant's expense, of Landlord's books, records and invoices evidencing the Common Area Charges allocated to Tenant hereunder.

Notwithstanding anything to the contrary in the Lease, Common Area Charges shall not include, and Tenant shall have no liability for, the expense items listed below:

- (a) The costs of original construction, the purchase price or any depreciation or all or any portion of the Project, and the cost of correcting any building code violation existing as of the date of execution of the Lease.
- (b) Costs incurred for the repair, maintenance and replacement of the structural elements of the Project, including, without limitation, beams, columns, foundations, footings, loan bearing and exterior walls, structural slabs, and the roof support system (except where the same are required by law).
- (c) Costs incurred for the repair, maintenance or replacement of the Project or any portion thereof, to the extent: (i) of the proceeds of insurance which Landlord is required to maintain under the Lease or actually maintains (whichever is greater), (ii) of any reimbursement which Landlord receives therefor under any warranties or from any third party (other than on account of a tenant's pro rata share of the Common Area Charges, or (iii) caused by the negligence or willful misconduct of Landlord or Landlord's Agents.

(d) Rentals and other payments by Landlord under any ground lease or other lease underlying this Lease; interest, principal, points, penalties and fees on any security instrument encumbering all or any portion of the Project; and any Property Taxes (provided, however, that Tenant is obligated to pay Tenant's Pro Rata Share of Property Taxes pursuant to Paragraph 7).

(e) Expenses and penalties (including, without limitation, attorneys' fees) incurred due to Landlord's violation of any lease, deed of trust, mortgage, other security instrument, ground lease, law (including, without limitation, statutes, ordinances, rules, regulations, orders, judgments and decrees) or private restriction, unless such violation was caused by Tenant's or Tenant's agents', employees' or contractors' acts, negligence or willful misconduct or breach of this Lease.

(f) Leasing commissions, attorneys' fees, tenant improvement costs and other costs and expenses incurred in connection with the leasing, or the improvement for leasing, of any premises.

(g) Advertising, marketing, media and promotional expenditures regarding the Project or any portion thereof, and costs of signs in or on the Project identifying the owner, lender or any contractor.

(h) The rental value of any management office, engineer's office, mechanical spaces, and Common Areas.

(i) Costs incurred in connection with the presence, investigation, monitoring, release, removal or remediation of any Hazardous Materials on, under, in or about the Project (subject, however, to the requirements of Paragraph 39).

(j) Any cost items that are not subject to apportionment among all tenants of the Project in proportion to the ratio of the total floor area of the premises leased by such tenants (with Landlord being considered the tenant of any unleased premises) to the total floor area of the Buildings (except as expressly provided above with respect to utilities provided to Building C).

(k) Insurance premiums allocable to tenant improvements in Building B and costs incurred by Landlord, if any, to repair, maintain, insure, manage and operate the Building B Exclusive Areas.

Common Area Charges shall also be subject to the following limitations:

(l) Any management fee included in the Common Area Charge shall exclude: salaries, wages and benefits paid for or provided to persons not employed full-time in the management and operation of the Project; costs of automobiles and travel expenses; professional, civic or recreational memberships; costs of seminars, conventions, educational programs and the like; charitable contributions; and any other administrative cost or expense not directly related to the management and operation of the Project.

(m) The rates paid by Landlord under landscape and parking lot maintenance contracts and other on-going service contracts for the Project shall not exceed rates customarily charged in Santa Clara County.

(n) No fee shall be charged for the use of the Project parking area or any other Common Area facility.

(o) The aggregate sum of all Common Area charges allocated to tenants of the Project for any year upon which an allocation is made shall not exceed the aggregate sum of such Common Area Charges which were actually incurred by Landlord for the year in question. No cost item shall be included more than once or allocated under more than one expense category. No cost item shall be submitted for payment by Tenant before it is incurred by Landlord.

(p) All expense items which are classified as capital expenditures, improvements or replacements under generally accepted accounting principles and which are permitted to be charged to Tenant hereunder shall be amortized on a monthly basis over their maximum estimated useful lives at the lesser of Landlord's cost of funds or the Bank of America prime rate plus two percent (2%) per annum. Only the monthly amortized portion of such expense which falls due during the Term shall be included as a Common Area Charge payable by Tenant hereunder.

13. Alterations. Tenant shall not make, or suffer to be made, any alterations, improvements or additions in, on, about or to the Premises or the Building A Exclusive Areas or any part thereof, without the prior written consent of Landlord, which consent will not be unreasonably withheld or delayed; and without a valid building permit issued by the appropriate governmental authority. The foregoing notwithstanding, Landlord's consent shall not be required for non-structural alterations, improvements or additions (which do not adversely affect the basic building systems of Building A or involve roof or wall penetrations) costing not more than \$100,000 annually. The preceding sentence notwithstanding, whether or not Landlord's consent is required, Tenant agrees to give Landlord at least five (5) days prior written notice prior to commencing any work of improvement in, on or about the Premises (a) for which a building permit is required, and/or (b) which is to be performed by a third party contractor or subcontractor and which is estimated to cost or will cost in excess of \$25,000. Within ten (10) days after Tenant's written request, Landlord shall advise Tenant as to whether Landlord will require any proposed alterations, improvements or additions to be removed or surrendered at the expiration (or earlier termination) of the Term. In the absence of any such request by Tenant, Landlord shall give Tenant written notice, not less than ninety (90) days prior to the expiration of the Term, of any alterations, additions or improvements Landlord requires to be removed. Failure of Landlord to respond timely to Tenant's request or, otherwise to give timely notice of the alterations, additions or improvements Landlord requires to be removed at the expiration of the Term, shall constitute Landlord's consent to the surrender of such alterations, improvements or additions, excluding any non-structural alterations, improvements or additions which Tenant elects to remove, provided that Tenant repairs all damage to the Premises caused by such removal. Unless Landlord requires that Tenant remove any such alterations, improvement or addition, any alteration, addition or improvement to the Premises, except movable furniture and trade fixtures, shall become the property of Landlord upon termination of the Lease and shall remain upon and be surrendered with the Premises at the termination of this Lease. Without limiting the generality of the foregoing, all heating, lighting, electrical (including all wiring, conduit, outlets, drops, buss ducts, main and

subpanels), air conditioning, partitioning [except for modular demountables, which may be removed], drapery, and carpet installations made by Tenant regardless of how affixed to the Premises, together with all other additions, alterations and improvements that have become an integral part of the Building, shall be and become the property of the Landlord upon termination of the Lease, and shall not be deemed trade fixtures, and shall remain upon and be surrendered with the Premises at the termination of this Lease.

If, during the term hereof, any alteration, addition or change of any sort to all or any portion of the Premises or the Building A Exclusive Areas is required by law, regulation, ordinance or order of any public agency as a result of (i) Tenant's negligence or willful misconduct, (ii) Tenant's particular use of the Premises (including, without limitation, any change of use of the Premises by Tenant), (iii) any alterations, additions or improvements to the Premises by or for Tenant, or (iv) Tenant's applications for governmental approvals or permits, rather than due to the use and occupancy of the Premises in general or for any other reason, Tenant shall promptly make the same at its sole cost and expense. If during the term hereof, any alteration, addition, or change to the Premises (except as provided in the previous sentence) or to the Common Area is required by law, regulation, ordinance or order of any public agency, Landlord shall make the same and no portion of the cost of such alteration, addition or change shall be a Common Area Charge or borne by the Tenant. It is expressly understood and agreed that Tenant shall not be required to make any alterations, improvement or addition to the Premises which is required by any law, regulation, ordinance or order except and only to the extent that such requirement applies because of the specific activities conducted by Tenant at the Premises, including without limitation, the negligence or willful misconduct of Tenant, the particular use or any change in use of the Premises by Tenant, any alterations, additions or improvements to the Premises by or for Tenant, or any application by Tenant for governmental approvals or permits.

14. Acceptance of the Premises. Landlord represents and warrants to Tenant that (a) Landlord has received no notice from any governmental authority claiming that the Project (or any portion thereof) fails to comply with any applicable law, is the subject of any investigation to determine whether or not the Project (or any portion thereof) is in compliance with any applicable law, or otherwise requiring any work to be done on or about the Project; and (b) as of the date of delivery of possession of the Premises by Landlord to Tenant, to the best of Landlord's knowledge, the Premises are in good condition and repair, with all plumbing, electrical, water, sewer, mechanical and HVAC systems in good working order, except that certain cabling installed in the Building by the prior tenant remains in the Building, there exists water leakage at certain joints between the window frame and the exterior walls of the Building, and there is deferred maintenance with respect to the roof and HVAC system of the Building. Not later than the Commencement Date of this Lease, Landlord shall, at no cost to Tenant, and without interference by Tenant or its agents, employees or contractors, remove the aforementioned cabling from the Building, repair the leak(s) around the window(s) referred to in the immediately preceding sentence, repair the roof so that the same is water tight and repair the HVAC system in the Building so that it is in good operating condition and repair. Except for latent defects and violations of applicable law, and without limiting Landlord's obligations under this Lease (and subject to Landlord performing its obligations under the immediately preceding sentence), by entering and taking possession of the Premises pursuant to this Lease, Tenant accepts the Premises as being in good and sanitary order, condition and repair and accepts the Premises in their condition existing as of the date of such entry. Tenant acknowledges that neither the Landlord nor Landlord's agents has made any representation or warranty as to the suitability of the Premises to the conduct of Tenant's business. Any agreements, warranties or representations not expressly contained herein shall in no way bind

either Landlord or Tenant, and Landlord and Tenant expressly waive all claims for damages by reason of any statement, representation, warranty, promise or agreement, if any, not contained in this Lease. This Lease constitutes the entire understanding between the parties hereto and no addition to, or modification of, any term or provision of this Lease shall be effective until set forth in a writing signed by both Landlord and Tenant.

15. Default.

- A. Events of Default. A breach of this Lease shall exist if any of the following events (hereinafter referred to as "Event of Default") shall occur:
1. Default in the payment when due of any installment of rent or other payment required to be made by Tenant hereunder, where such default shall not have been cured within five (5) days after written notice of such default is given to Tenant;
 2. Tenant's failure to perform any other term, covenant or condition contained in this Lease where such failure shall have continued for thirty (30) days after written notice of such failure is given to Tenant; provided that if performance reasonably requires more than thirty (30) days, then Tenant shall not be in default unless Tenant shall have failed to commence performance within such thirty (30) day period and thereafter diligently pursued such performance to completion.
 3. Tenant's general assignment of its assets for the benefit of its creditors;
 4. The sequestration of, attachment of, or execution on, any substantial part of the property of Tenant or on any property essential to the conduct of Tenant's business shall have occurred and Tenant shall have failed to obtain a return or release of such property within sixty (60) days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier;
 5. Tenant shall commence any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seek appointment of a receiver, trustee, custodian, or other similar official for it or for all or any substantial part of its property; or
 6. Any case, proceeding or other action against Tenant shall be commenced seeking to have an order for relief entered against it as debtor, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property, and such case, proceeding or other action (i) results in the entry of an order for relief against it which is not fully stayed within thirty (30) business days after the entry thereof or (ii) remains undismissed for a period of sixty (60) days.
- B. Remedies. Upon any Event of Default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law, to which Landlord may resort cumulatively, or in the alternative:

1. Recovery of Rent. Landlord shall be entitled to keep this Lease in full force and effect (whether or not Tenant shall have abandoned the Premises) and to enforce all of its rights and remedies under this Lease, including the right to recover rent and other sums as they become due, plus interest at the Permitted Rate (as defined in Paragraph 33 below) from the due date of each installment of rent or other sum until paid.
2. Termination. Landlord may terminate this Lease by giving Tenant written notice of termination. On the giving of the notice all of Tenant's rights in the Premises and the Building and Parcel shall terminate. Upon the giving of the notice of termination, Tenant shall surrender and vacate the Premises in the condition required by Paragraph 34, and Landlord may re-enter and take possession of the Premises and all the remaining improvements or property and eject Tenant or any of Tenant's subtenants, assignees or other person or persons claiming any right under or through Tenant or eject some and not others or eject none. This Lease may also be terminated by a judgment specifically providing for termination. Any termination under this paragraph shall not release Tenant from the payment of any sum then due Landlord or from any claim for damages or rent previously accrued or then accruing against Tenant. In no event shall any one or more of the following actions by Landlord constitute a termination of this Lease:
 - a. maintenance and preservation of the Premises;
 - b. efforts to relet the Premises;
 - c. appointment of a receiver in order to protect Landlord's interest hereunder;
 - d. consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to provisions hereof concerning subletting and assignment or otherwise; or
 - e. any other action reasonably taken by Landlord or Landlord's agents intended to mitigate the adverse effects from any breach of this Lease by Tenant.
3. Damages. In the event this Lease is terminated pursuant to Subparagraph 15.B.2 above, or otherwise, Landlord shall be entitled to damages in the following sums:
 - a. the worth at the time of award of the unpaid rent which has been earned at the time of 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 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 term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and
- d. any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom including, without limitation, the following: (i) expenses for cleaning, repairing or restoring the Premises; ii) costs of carrying the Premises such as taxes and insurance premiums thereon, utilities and security precautions; (iii) expenses in retaking possession of the Premises; (iv) reasonable attorneys' fees and court costs; and (v) any unamortized real estate brokerage commission paid in connection with this Lease.
- e. The "worth at the time of award" of the amounts referred to in Subparagraphs (a) and (b) of this Paragraph, is computed by allowing interest at the Permitted Rate. The "worth at the time of award" of the amounts referred to in Subparagraph (c) of this Paragraph is computed by discounting such amount at the discount rate of the Federal Reserve Board of San Francisco at the time of award plus one percent (1%). The term "rent" as used in this Paragraph shall include all sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease.

16. Destruction. In the event that any portion of the Premises are destroyed or damaged by an uninsured peril, Landlord or Tenant may, upon written notice to the other, given within thirty (30) days after the occurrence of such damage or destruction, elect to terminate this Lease; provided, however, that either party may, within thirty (30) days after receipt of such notice, elect to make any required repairs and/or restoration at such party's sole cost and expense, in which event this Lease shall remain in full force and effect, and the party having made such election to restore or repair shall thereafter diligently proceed with such repairs and/or restoration.

In the event the Premises are damaged or destroyed from any insured peril to the extent of fifty percent (50%) or more of the then replacement cost of the Premises, Landlord may, upon written notice to Tenant, given within thirty (30) days after the occurrence of such damage or destruction, elect to terminate this Lease. If Landlord does not give such notice in writing within such period, Landlord shall be deemed to have elected to rebuild or restore the Premises, in which event Landlord shall, at its expense, promptly rebuild or restore the Premises to their condition prior to the damage or destruction and Tenant shall pay to Landlord upon commencement of reconstruction the amount of any deductible from the insurance policy.

In the event the Premises are damaged or destroyed from any insured peril to the extent of less than fifty percent (50%) of the then replacement cost of the Premises, Landlord shall, at Landlord's expense, promptly rebuild or restore the Premises to their condition prior to the damage or destruction and Tenant shall pay to Landlord upon commencement of reconstruction the amount of any deductible from the insurance policy.

In the event that, pursuant to the foregoing provisions, Landlord is to rebuild or restore the Premises, Landlord shall, within thirty (30) days after the occurrence of such damage or

destruction, provide Tenant with written notice of the estimated time required for such repair or restoration. If such period is longer than one hundred eighty (180) days from the date of the event causing such damage or destruction of the Premises, Tenant may, within thirty (30) days after receipt of Landlord's notice, elect to terminate the Lease by giving written notice to Landlord of such election, whereupon the Lease shall immediately terminate. The period of time for Landlord to complete the repair or restoration shall be extended for delays caused by the fault or neglect of Tenant or because of acts of God, labor disputes, strikes, fires, freight embargoes, rainy or stormy weather, inability to obtain materials, supplies or fuels, acts of contractors or subcontractors, or delay of contractors or subcontractors due to such causes, or other contingencies beyond the control of Landlord. Landlord's obligation to repair or restore the Premises shall not include restoration of Tenant's trade fixtures, equipment, merchandise, or any improvements (including the initial improvements installed pursuant to Exhibit "C"), alterations or additions made by Tenant to the Premises.

Unless this Lease is terminated pursuant to the foregoing provisions, this Lease shall remain in full force and effect; provided, however, that during any period of repairs or restoration, rent and all other amounts to be paid by Tenant on account of the Premises and this Lease shall be abated in proportion to the area of the Premises rendered not reasonably suitable for the conduct of Tenant's business thereon. Tenant hereby expressly waives the provisions of Section 1932, Subdivision 2 and Section 1933, Subdivision 4 of the California Civil Code.

17. Condemnation.

- A. Definition of Terms. For the purposes of this Lease, the term (1) "Taking" means a taking of the Premises or the Common Area or damage to the Premises or the Common Area related to the exercise of the power of eminent domain and includes a voluntary conveyance, in lieu of court proceedings, to any agency, authority, public utility, person or corporate entity empowered to condemn property and who has commenced proceedings to condemn the Premises or the Common Area; (2) "Total Taking" means the taking of the entire Premises or the Common Area or so much of the Premises or the Common Area as to prevent or substantially impair the use thereof by Tenant for the uses herein specified; provided, however, in no event shall a Taking of less than ten percent (10%) of the Premises or twenty-five percent (25%) of the Common Area be deemed a Total Taking; (3) "Partial Taking" means the taking of only a portion of the Premises which does not constitute a Total Taking; (4) "Date of Taking" means the date upon which the title to the Premises, or a portion thereof, passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor; and (5) "Award" means the amount of any award made, consideration paid, or damages ordered as a result of a Taking.
- B. Rights. The parties agree that in the event of a Taking all rights between them or in and to an Award shall be as set forth herein and Tenant shall have no right to any Award except as set forth herein.
- C. Total Taking. In the event of a Total Taking during the term hereof (1) the rights of Tenant under the Lease and the leasehold estate of Tenant in and to the Premises shall cease and terminate as of the Date of Taking; (2) Landlord shall refund to Tenant any prepaid rent; (3) Tenant shall pay Landlord any rent or charges due Landlord under the Lease, each prorated as of the Date of Taking; (4) Tenant shall receive from Landlord

those portions of the Award attributable to (a) the unamortized Excess TI Costs (defined in Exhibit "C"), amortized on a straight-line basis over a ten-year period, (b) movable personal property or trade fixtures of Tenant, and (c) moving expenses of Tenant; and (5) the remainder of the Award shall be paid to and be the property of Landlord.

D. Partial Taking. In the event of a Partial Taking during the term hereof (1) the rights of Tenant under the Lease and leasehold estate of Tenant in and to the portion of the Premises taken shall cease and terminate as of the Date of Taking; (2) from and after the Date of Taking the Monthly Installment of rent shall be an amount equal to the product obtained by multiplying the Monthly Installment of rent immediately prior to the Taking by a fraction, the numerator of which is the number of square feet contained in the Premises after the Taking and the denominator of which is the number of square feet contained in the Premises prior to the Taking; (3) Tenant shall receive from the Award the portions of the Award attributable to (a) the unamortized Excess TI Costs allocable on a per-square-foot basis to the portion of the Premises taken, amortized on a straight-line basis over a ten-year period, (b) movable personal property or trade fixtures of Tenant, and (c) removal costs; and (4) the remainder of the Award shall be paid to and be the property of Landlord.

18. Mechanics' Lien. Tenant shall (A) pay for all labor and services performed for, materials used by or furnished to, Tenant or any contractor employed by Tenant with respect to the Premises; (B) indemnify, defend, protect and hold Landlord and the Premises harmless and free from any liens, claims, liabilities, demands, encumbrances, or judgments created or suffered by reason of any labor or services performed for, materials used by or furnished to, Tenant or any contractor employed by Tenant with respect to the Premises; and (C) permit Landlord to post a notice of nonresponsibility in accordance with the statutory requirements of California Civil Code Section 3094 or any amendment thereof. In the event Tenant is required to post an improvement bond with a public agency in connection with the above, Tenant agrees to include Landlord as an additional obligee.
19. Inspection of the Premises. Tenant shall permit Landlord and its agents to enter the Premises at any reasonable time for the purpose of inspecting the same, performing Landlord's maintenance and repair responsibilities, posting a notice of non-responsibility for alterations, additions or repairs and at any time within ninety (90) days prior to expiration of this Lease, to place upon the Premises, ordinary "For Lease" or "For Sale" signs. Except in the event of an emergency, Landlord shall give Tenant at least 48 hours prior notice and enter only during Tenant's normal business hours. Entry shall be subject to Tenant's reasonable security requirements. Landlord shall exercise good faith efforts to perform its activities on the Premises in a manner so as to minimize any disruption, disturbance or interference with the conduct of Tenant's business to the extent practicable under the circumstances.
20. Compliance with Laws. Tenant shall, at its own cost, comply with all of the requirements of all municipal, county, state and federal authorities now in force, or which may hereafter be in force, pertaining to the use and occupancy of the Premises by Tenant, and shall faithfully observe all municipal, county, state and federal law, statutes or ordinances now in force or which may hereafter be in force applicable to Tenant's use or occupancy of the Premises. 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 and occupancy of the Premises shall be conclusive of the fact that such violation by Tenant has occurred.

21. Subordination. The following provisions shall govern the relationship of this Lease to any underlying lease, mortgage or deed of trust which now or hereafter affects the Premises, the Building and/or the Parcel, or Landlord's interest or estate therein (the "Project") and any renewal, modification, consolidation, replacement, or extension thereof (a "Security Instrument").
- A. Priority. This Lease is subject and subordinate to Security Instruments existing as of the Commencement Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument. Landlord shall use its reasonable efforts to obtain a non-disturbance agreement from the existing Lender for the benefit of Tenant; provided that the obtaining of such agreement shall not be a condition to the effectiveness of the Lease.
 - B. Subsequent Security Instruments. At Landlord's election, this Lease shall become subject and subordinate to any Security Instrument created after the Commencement Date. Notwithstanding such subordination, Tenant's rights under this Lease, including without limitation, its right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default and performs all of its obligations under this Lease, unless this Lease is otherwise terminated pursuant to its terms.
 - C. Documents. Tenant shall execute any document or instrument required by Landlord or any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily requires in connection with such agreements, including provisions that the Lender not be liable for (1) the return of the Security Deposit unless the Lender receives it from Landlord, and (2) any defaults on the part of Landlord occurring prior to the time that the Lender takes possession of the Project in connection with the enforcement of its Security Instrument. Tenant's failure to execute any such document or instrument within fifteen (15) days after written demand therefor shall constitute a default by Tenant.
 - D. Tenant's Attornment. Tenant shall attorn (1) to any purchaser of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Project; (2) to grantee or transferee designated in any deed given in lieu of foreclosure; or (3) to the lessor under any underlying ground lease should such ground lease be terminated, provided such party, in writing, assumes and agrees to observe and perform the obligations of Landlord under this Lease accruing after the date of the applicable transfer.
 - E. Lender. The term "Lender" shall mean (1) any beneficiary, mortgagee, secured party, or other holder of any deed of trust, mortgage, or other written security device or agreement affecting the Project; and (2) any lessor under any underlying lease under which Landlord holds its interest in the Project.

22. Holding Over. This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over by Tenant after expiration shall not constitute a renewal or extension or give Tenant any rights in or to the Premises except as expressly provided in this Lease. Any holding over after the expiration without the consent of Landlord shall be construed to be a tenancy from month to month, at one hundred twenty-five percent (125%) of the monthly rent for the last month of the Lease Term, and shall otherwise be on the terms and conditions herein specified insofar as applicable.

23. Notices. Any notice required or desired to be given under this Lease shall be in writing with copies directed as indicated below and shall be personally served or given by mail. Any notice given by mail shall be deemed to have been given on the third (3rd) day following the date on which such notice was deposited in the United States mails, certified and postage prepaid, addressed to the party to be served with a copy as indicated herein at the last address given by that party to the other party under the provisions of this Paragraph. At this date of execution of this Lease, the address of Landlord is:

511 Division Street
Campbell CA 95008

and the address of Tenant is:

8105 Irvine Center Drive
Irvine, CA 92718
Attention: Manager, Corporate Real Estate

24. Attorneys' Fees. In the event either party shall bring any action or legal proceeding for damages for any alleged breach of any provision of this Lease, to recover rent or possession of the Premises, to terminate this Lease, or to enforce, protect or establish any term or covenant of this Lease or right or remedy of either party, the prevailing party shall be entitled to recover as a part of such action or proceeding, reasonable attorneys' fees and court costs, including attorneys' fees and costs for appeal, as may be fixed by the court or jury. The term "prevailing party" shall mean the party who received substantially the relief requested, whether by settlement, dismissal, summary judgment, judgment, or otherwise.

25. Nonassignment.

A. Landlord's Consent Required. Except as expressly provided in this Paragraph 25, Tenant's interest in this Lease is not assignable, by operation of law or otherwise, nor shall Tenant have the right to sublet the Premises, transfer any interest of Tenant therein or permit any use of the Premises by another party, without the prior written consent of Landlord to such assignment, subletting, transfer or use, which consent Landlord agrees not to withhold or delay unreasonably subject to the provisions of Subparagraph B below. A consent to one assignment, subletting, occupancy or use by another party shall not be deemed to be a consent to any subsequent assignment, subletting, occupancy or use by another party. Any assignment or subletting without such consent shall be void and shall, at the option of Landlord, terminate this Lease.

Landlord's waiver or consent to any assignment or subletting hereunder shall not relieve Tenant from any obligation under this Lease unless the consent shall so provide.

B. Transferee Information Required. If Tenant desires to assign its interest in this Lease or sublet the Premises, or transfer any interest of Tenant therein, or permit the use of the Premises by another party (hereinafter collectively referred to as a "Transfer"), Tenant shall give Landlord at least ten (10) days prior written notice of the proposed Transfer and of the terms of such proposed Transfer, including, but not limited to, the name and legal composition of the proposed transferee, a financial statement of the proposed transferee,

the nature of the proposed transferee's business to be carried on in the Premises, the payment to be made or other consideration to be given to Tenant on account of the Transfer, and such other pertinent information as may be requested by Landlord, all in sufficient detail to enable Landlord to evaluate the proposed Transfer and the prospective transferee. Landlord shall keep and maintain such information in strict confidence and shall not disclose the same to any person or entity (other than to Landlord's lender, general partners, attorneys and employees who have a need to know such information and who agree in writing to comply with this confidentiality obligation) without Tenant's express written consent. In the event Tenant seeks to Transfer its interest in this Lease or the Premises, Landlord shall have the following options, which may be exercised at its sole choice without limiting Landlord in the exercise of any other right or remedy which Landlord may have by reason of such proposed Transfer:

- (1) If Tenant proposes to assign this Lease or sublet more than seventy-five percent (75%) of the total rentable square footage of the Premises for a term exceeding two years (or, if less, for the balance of the Term), then Landlord may elect to terminate this Lease effective as of the proposed effective date of the proposed Transfer and release Tenant from any further liability hereunder accruing after such termination date by giving Tenant written notice of such termination within ten (10) days after receipt by Landlord of Tenant's notice of intent to transfer as provided above. If Landlord makes such election to terminate this Lease, Tenant shall surrender the Premises, in accordance with Paragraph 34, on or before the effective termination date, however, this Lease shall not terminate if, within five (5) days after receiving Landlord's notice electing to terminate this Lease, Tenant notifies Landlord in writing that Tenant has withdrawn its assignment or sublet proposal; or
- (2) Landlord may consent to the proposed Transfer on the condition that Tenant agrees to pay to Landlord, as additional rent, fifty percent (50%) of all rents or other consideration (including key money) received by Tenant from the transferee by reason of such Transfer in excess of the rent payable by Tenant to Landlord under this Lease (prorated in the event of a subletting of less than the entire Premises) (less any brokerage commissions, advertising expenses, or tenant improvement costs or other concessions paid or incurred by Tenant in connection with the Transfer). Tenant expressly agrees that the foregoing is a reasonable condition for obtaining Landlord's consent to any Transfer; or
- (3) Landlord may reasonably withhold its consent to the proposed Transfer.

Notwithstanding anything to the contrary contained herein, the provisions of this Paragraph 25 shall not apply to any transfer (a) to any affiliate of Tenant, (b) any entity who acquires all or substantially all of the assets of Tenant, by merger or otherwise, or (c) to independent contractors under contract to provide services to or for the benefit of Tenant, including, without limitation, vending machine companies, food service providers, and consultants.

26. Successors. The covenants and agreements contained in this Lease shall be binding on the parties hereto and on their respective heirs, successors and assigns (to the extent the Lease is assignable).

27. Mortgagee Protection. In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee of a mortgage encumbering the Premises, whose address shall have been furnished to Tenant, and shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including reasonable time to obtain possession of the Premises by power of sale or judicial foreclosure, if such should prove necessary to effect a cure.
28. Landlord Loan or Sale. Tenant agrees promptly following request by Landlord to (A) execute and deliver to Landlord estoppel certificates presented to Tenant by Landlord, (i) certifying that this Lease is unmodified and in full force and effect or specifying any modifications and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder or specifying the nature of any such defaults, and (iii) evidencing the status of the Lease as may be required either by a lender making a loan to Landlord to be secured by a deed of trust or mortgage covering the Premises or a purchaser of the Premises from Landlord and (B) to deliver to Landlord the publicly available (as to the original Tenant hereunder) financial statement of Tenant with an opinion of a certified public accountant, if available, including a balance sheet and profit and loss statement, for the last completed fiscal year all prepared in accordance with generally accepted accounting principles consistently applied. Tenant's failure to deliver an estoppel certificate promptly following such request shall be an Event of Default under this Lease.
29. Surrender of Lease Not Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger and shall, at the option of Landlord, terminate all or any existing subleases or subtenants, or operate as an assignment to Landlord of any or all such subleases or subtenants.
30. 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 any preceding or succeeding breach of the same or any other covenant or condition herein contained.
31. General.
- A. Captions. The captions and paragraph headings used in this Lease are for the purposes of convenience only. They shall not be construed to limit or extend the meaning of any part of this Lease, or be used to interpret specific sections. The word (s) enclosed in quotation marks shall be construed as defined terms for purposes of this Lease. As used in this Lease, the masculine, feminine and neuter and the singular or plural number shall each be deemed to include the other whenever the context so requires.
- B. Definition of Landlord. The term "Landlord" as used in this Lease, so far as the covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner at the time in question of the fee title of the Premises, and in the event of any transfer or transfers of the title of such fee, the Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor) shall after the date of such transfer or conveyance be automatically freed and relieved of all liability with respect to performance of any covenants or obligations on the part of Landlord contained in this Lease, thereafter to be performed; provided that any funds in the hands of Landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be turned over to the grantee. It is intended that the covenants and obligations contained in this

exterior of the Building or on the Parcel with the prior written consent of Landlord, which consent will not be unreasonably withheld or delayed.

33. Interest on Past Due Obligations. Any Monthly Installment of rent or any other sum due from Tenant under this Lease which is received by Landlord after the date the same is due shall bear interest from said due date until paid, at an annual rate equal to the lesser of (the "Permitted Rate"): (1) twelve percent (12%); or (2) five percent (5%) plus the rate established by the Federal Reserve Bank of San Francisco, as of the twenty-fifth (25th) day of the month immediately preceding the due date, on advances to member banks under Section 13 and 13 (a) of the Federal Reserve Act, as now in effect or hereafter from time to time amended. Payment of such interest shall not excuse or cure any default by Tenant. In addition, Tenant shall pay all reasonable costs and attorneys' fees incurred by Landlord in collection of such amounts.
34. Surrender of the Premises. On the last day of the term hereof, or on the sooner termination of this Lease, Tenant shall surrender the Premises and the Building A Exclusive Areas to Landlord in their condition existing as of the Commencement Date of this Lease, ordinary wear and tear and damage from casualty or condemnation excepted (unless caused by the negligence or willful misconduct of Tenant or Tenant's agents, employees or contractors), with all interior walls cleaned, and repaired or replaced, all carpets shampooed and cleaned, the air conditioning and heating equipment serviced and repaired by a reputable and licensed service firm, all floors cleaned and waxed, all to the reasonable satisfaction of Landlord. Tenant shall remove all of Tenant's personal property and trade fixtures from the Premises, and all property not so removed shall be deemed abandoned by Tenant. Tenant, at its sole cost, shall repair any damage to the Premises and the Building A Exclusive Areas caused by the removal of Tenant's personal property, machinery and equipment, which repair shall include, without limitation, the patching and filling of holes and repair of structural damage. If the Premises and the Building A Exclusive Areas are not so surrendered at the termination of this Lease, Tenant shall indemnify, defend, protect and hold Landlord harmless from and against loss or liability resulting from delay by Tenant in so surrendering the Premises and the Building A Exclusive Areas including without limitation, any claims made by any succeeding tenant or losses to Landlord due to lost opportunities to lease to succeeding tenants.
35. Authority. The undersigned parties hereby warrant that they have proper authority and are empowered to execute this Lease on behalf of Landlord and Tenant, respectively.
36. Public Record. This Lease is made subject to all matters of public record affecting title to the property of which the Premises are a part. Tenant shall abide by and comply with all matters of public record now or hereafter affecting the Premises and any amendment thereof. The preceding notwithstanding, Tenant shall not be responsible for correcting any violations existing as of the date possession of the Premises is delivered to Tenant of the provisions of any document which is of public record and affecting the Premises or the Parcel.
37. Brokers. Tenant represents and warrants to Landlord that it has dealt solely with CB Commercial with respect to this transaction and hereby agrees to indemnify and hold Landlord harmless from and against any brokerage commission or fee, obligation, claim or damage (including attorneys' fees) paid or incurred respecting any other broker claiming through Tenant or with which/whom Tenant has dealt. It is acknowledged that one or more of Landlord's partners may be real estate brokers. Landlord shall pay and be solely responsible for all commissions due CB Commercial pursuant to a separate written agreement between Landlord and CB Commercial and any other persons or entities representing or claiming under or through Landlord in connection with this

transaction. Landlord hereby indemnifies and agrees to defend and hold harmless Tenant from and against all claims, demands, liabilities, damages and expenses (including, without limitation, attorneys' fees and costs) from all such persons or entities.

38. Limitation on Landlord's Liability. Tenant, for itself and its successors and assigns (to the extent this Lease is assignable), hereby agrees that in the event of any actual, or alleged, breach or default by Landlord under this Lease that:

- (A) Tenant's sole and exclusive remedy against Landlord shall be as against the assets owned by Landlord (including, without limitation, Landlord's interest in the Building and Parcel, and any insurance proceeds available to Landlord), but not against the individual assets of Landlord's partners;
- B) No partner or officer of any partner of Landlord shall be sued or named as a party in a suit or action (except as may be necessary to secure jurisdiction of the partnership);
- C) No service of process shall be made against any partner of Landlord (except as may be necessary to secure jurisdiction of the partnership);
- D) No partner of Landlord shall be required to answer or otherwise plead to any service of process;
- E) No judgment will be taken against any partner of Landlord;
- F) Any judgment taken against any partner of Landlord maybe vacated and set aside at any time nunc pro tunc;
- G) No writ of execution will ever be levied against the assets of any partner of Landlord;
- H) The covenants and agreements of Tenant set forth in this Section 38 shall be enforceable by Landlord and any partner of Landlord.

39. Hazardous Material.

- A. Definitions. As used herein, the term "Hazardous Material" shall mean any substance: (i) the presence of which requires investigation or remediation under any federal, state or local statutes, regulation, ordinance, order, action, policy or common law; (ii) which is or becomes defined "hazardous waste," "hazardous substance," pollutant or contaminant under any federal, state or local statute, regulation, rule or ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601 et seq.) and/or the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq.); (iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department, commission, board, agency, or instrumentality of the United States, the State of California or any political subdivision thereof; (iv) the presence of which on the Premises poses or threatens to pose a hazard to the health or safety of persons on or about the Premises; (v) without limitation which contains gasoline, diesel fuel, or other petroleum

hydrocarbons; (vi) without limitation which contains polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde foam insulation; or (vii) without limitation radon gas.

- B. Landlord's Indemnity. Landlord shall indemnify, defend, protect and hold Tenant harmless from and against all liabilities, claims, penalties, fines, response costs and other expenses (including, but limited to, reasonable attorneys' fees and consultants' fees and costs) arising out of, resulting from, or caused by any Hazardous Material used, generated, discharged, transported to or from, stored or disposed of by Landlord or its Agents in, on, under, over, through or about the Premises and/or the surrounding real property. Landlord further agrees not to hold Tenant responsible for the cleanup or remediation of any Hazardous Materials that exist, if any, in, on or under the Parcel or the Premises as of the date possession of the Premises is delivered to Tenant (unless the same was generated or caused to be present by Tenant or its agents, employees or contractors). Nothing stated herein (including, without limitation, the terms of the immediately preceding sentence) shall be interpreted or construed as creating an obligation on Landlord to indemnify or defend Tenant against liabilities, claims, penalties, fines, response costs and other expenses (including, without limitation, attorneys' fees and consultants' fees and costs) arising out of, resulting from, or caused by any Hazardous Materials used, generated, discharged, transported to or from, stored or disposed of by a person or entity other than Landlord or its Agents.
- C. Permitted Use. Subject to the compliance by Tenant with the provisions of Subparagraphs D, E, F, G, I, J and K below, Tenant shall be permitted to use and store on the Premises those Hazardous Materials listed in Exhibit "D" attached hereto in the quantities attached set forth in Exhibit "D" and such additional Hazardous Materials as are reasonably required or necessary in connection with Tenant's business. Unless such new Hazardous Materials are described in a HMMP (as described below) furnished to Landlord, promptly following Tenant's use of any Hazardous Materials that are not described on Exhibit "D" attached hereto, Tenant shall notify Landlord in writing of the name of the new Hazardous Materials being used by Tenant and the estimated quantities of such Hazardous Materials being used.
- D. Hazardous Materials Management Plan. Prior to Tenant using, handling, transporting or storing any Hazardous Material at or about the Premises (including, without limitation, those listed in Exhibit "D"). Tenant shall submit to Landlord a Hazardous Materials Management Plan ("HMMP") for Landlord's review and approval, which approval shall not be unreasonably withheld. The HMMP shall describe: (i) the approximate quantities of each material to be used, (ii) the purpose for which each material is to be used (subject to Tenant's requirements for maintaining the confidentiality of its trade secrets), (iii) the method of storage of each material, (iv) the method of transporting each material to and from the Premises and within the Premises, (v) the methods Tenant will employ to monitor the use of the material and to detect any leaks or potential hazards, and (vi) any other information any department of any governmental entity (city, state or federal) requires prior to the issuance of any required permit for the Premises or during Tenant's occupancy of the Premises. Landlord may, but shall have no obligation to review and approve the foregoing information and HMMP, and such review and approval or failure to review and approve shall not act as an estoppel or otherwise waive Landlord's rights under this Lease or relieve Tenant of its obligations under this lease. If Landlord determines in good faith by inspection of the Premises or review of the HMMP that the methods in use or described

by Tenant are not adequate in Landlord's good faith judgment to prevent or eliminate the existence of environmental hazards, then Tenant shall not use, handle, transport, or store such Hazardous Materials at or about the Premises unless and until such methods are approved by an environmental consultant reasonably approved by Landlord and Tenant and added to an approved HMMP. Tenant shall strictly comply with the HMMP and shall not change its use, operations or procedures with respect to Hazardous Materials without submitting an amended HMMP for Landlord's review and approval as provided above.

- E. Use Restriction. Except as specifically allowed in Subparagraph C above, Tenant shall not cause or permit any Hazardous Material to be used, stored, generated, discharged, transported to or from, or disposed of in or about the Premises, or any other land or improvements in the vicinity of the Premises. Without limiting the generality of the foregoing, Tenant, at its sole cost, shall comply with all Laws relating to the storage, use, generation, transport, discharge and disposal by Tenant or its Agents of any Hazardous Material. If the presence of any Hazardous Material on the Premises caused or permitted by Tenant or its Agents results in contamination of the Premises or any soil, air, ground or surface waters under, through, over, on, in or about the Premises, Tenant, at its expense, shall promptly take all actions necessary to return the Premises and/or the surrounding real property to the condition required by applicable governmental authorities or agencies. The obligation of Tenant to return the Premises and/or surrounding property to the condition required by applicable governmental authorities or agencies shall not limit, reduce or alter in any manner Tenant's indemnity obligation under Subparagraph F below; it being understood and agreed by Tenant that, although hypothetically the applicable governmental agencies may allow Tenant to keep on the Premises, or encapsulate thereunder, certain traces of a Hazardous Material(s) and not remove all of it from the Premises, if Tenant suffers any damages, liabilities or losses as a result of such Hazardous Materials remaining on the Premises or the Parcel or migrating onto another property (including, without limitation, diminution in the fair market value of the Premises or Parcel, diminution in the fair rental value of the Premises or Parcel, inability to finance or refinance the Premises or Parcel or inability to lease or sell the Premises or Parcel), Tenant shall be liable for such damages, liabilities or losses under the terms of Subparagraph F below.
- F. Tenant Indemnity. Tenant shall defend, protect, hold harmless and indemnify Landlord and its Agents and Lenders with respect to all actions, claims, losses (including, diminution in value of the Premises), fines, penalties, fees, (including, but not limited to, reasonable attorneys' and consultants' fees and costs) costs, damages, liabilities, remediation costs, investigation costs, response costs and other expenses arising out of, resulting from, or caused by any Hazardous Material used, generated discharged, transported to or from, stored, or disposed of by Tenant or its Agents in, on, under, over, through or about the Premises and/or the surrounding real property. Tenant shall not suffer any lien to be recorded against the Premises as a consequence for the disposal of any Hazardous Material on the Premises by Tenant or its Agents, including any so called state, federal or local "super fund" lien related to the "clean up" of any Hazardous Material in, over, on, under through, or about the Premises.
- G. Compliance. Tenant shall immediately notify Landlord of any governmentally required test, investigation, or enforcement proceeding against Tenant or the Premises concerning any Hazardous Material in, on, under or about the Premises or allegedly used in, on, under

or about the Premises. Any remediation plan prepared by or on behalf of Tenant must be submitted to Landlord prior to conducting any work pursuant to such plan and prior to submittal to any applicable government authority and shall be subject to Landlord's consent. Tenant acknowledges that Landlord, as the owner of the Parcel and Buildings located thereon, at its election, shall have the sole right to negotiate, defend, approve and appeal any action taken or order issued with regard to any Hazardous Material by any applicable governmental authority. The preceding sentence notwithstanding, Landlord agrees that if governmental enforcement action is taken against Landlord with respect to any Hazardous Materials discharged or released or caused to be present on, in or under the Parcel or Building B, then Landlord shall promptly notify Tenant of such enforcement action and Tenant shall be entitled to participate in any negotiations with the applicable governmental agency concerning the clean up, remediation or monitoring of such Hazardous Materials. Nothing stated herein shall preclude Landlord from settling or compromising any claims or actions initiated against it or from entering into any monitoring or remediation plan for which Tenant has an obligation of indemnity hereunder.

- H. Assignment and Subletting. It shall not be unreasonable for Landlord to withhold its consent to any proposed assignment or subletting if the proposed assignee or subtenant has been required by any prior landlord, lender, or governmental authority to "clean up" or remediate any Hazardous Material and has failed to promptly do so; provided that the foregoing will not apply in the case of a Fortune 1,000 Company. Landlord shall not unreasonably withhold its consent to any proposed assignment or subletting if (i) the proposed assignee's or subtenant's anticipated use of the Premises involves the storage, generation, discharge, transport, use or disposal of any Hazardous Material not permitted under Subparagraph C above; or (ii) if the proposed assignee or subtenant is subject to investigation or enforcement order or proceeding by any governmental authority in connection with the use, generation, discharge, transport, disposal or storage of any material amount of Hazardous Material.
- I. Surrender. Upon the expiration or earlier termination of the Lease, Tenant, at its sole cost, shall remove all Hazardous Materials from the Premises that Tenant or its Agents introduced to the Premises. If Tenant fails to so surrender the Premises, Tenant shall indemnify, protect, defend and hold Landlord harmless from and against all damages resulting from Tenant's failure to surrender the Premises as required by this Paragraph, including, without limitation, any actions, claims, losses, liabilities, fees (including, but not limited to, reasonable attorneys' fees and consultants' fees and costs), fines, costs, penalties, or damages in connection with the presence of such Hazardous Materials at the Premises including, without limitation, damages occasioned by the inability to relet the Premises or a reduction in the fair market and/or rental value of the Premises by reason of the existence of any Hazardous Materials in, on, over, under, through or around the Premises introduced by Tenant.
- J. Right to Appoint Consultant. Landlord shall have the right to appoint a consultant, reasonably acceptable to Tenant, to conduct an investigation to determine whether any Hazardous Material is being used, generated, discharged, transported to or from, stored or disposed of in, on, over, through, or about the Premises, in an appropriate and lawful manner. If Tenant has violated any Law or covenant in this Lease regarding the use, storage or disposal of Hazardous Materials on or about the Premises, Tenant shall reimburse Landlord for the reasonable cost of such investigations applicable to the

discovery of Tenant's violation and future investigations of the environmental condition of the Parcel reasonably undertaken by or on behalf of Landlord to confirm the violation has been cured. Tenant, at its expense, shall comply with all reasonable recommendations of the consultant required to conform Tenant's use, storage or disposal of Hazardous Materials to the requirements of applicable Law or to fulfill the obligations of Tenant hereunder.

- K. Holding Over. If any action of any kind is required to be taken by any governmental authority to clean-up, remove, remediate or monitor Hazardous Material (the presence of which is the result of the acts or omissions of Tenant or its Agents) and such action is not completed prior to the expiration or earlier termination of the Lease, Tenant shall be deemed to have impermissibly held over until such time as such required action is completed, and Landlord shall be entitled, subject to Landlord's obligation to attempt to reasonably mitigate its damages, to all damages directly or indirectly incurred in connection with such holding over, including without limitation, damages occasioned by the inability to re-let the Premises or a reduction of the fair market and/or rental value of the Premises.
- L. Existing Environmental Reports. Tenant hereby acknowledges that it has received, read and reviewed the reports and test results described in Exhibit "E" attached hereto and made a part hereof (the "Existing Environmental Reports").
- M. Provisions Survive Termination. The provisions of this Paragraph 39 shall survive the expiration or termination of this Lease.
- N. Controlling Provisions. The provisions of this Paragraph 39 are intended to govern the rights and liabilities of the Landlord and Tenant hereunder respecting Hazardous Materials to the exclusion of any other provisions in this Lease that might otherwise be deemed applicable. The provisions of this Paragraph 39 shall be controlling with respect to any provisions in this Lease that are inconsistent with this Paragraph 39.

40. First Opportunity to Lease.

- A. Definitions. As used in this Paragraph 40, the following terms shall have the following meanings:
 - (1) "First Opportunity Space" shall mean that certain 154,080 space commonly known as "Building B" and the Building B Exclusive Areas.
 - (2) "Xerox Lease" shall mean the existing lease, as the same has been amended, between Landlord and Xerox Corporation, a New York corporation ("Xerox") covering the First Opportunity Space.
- B. First Opportunity to Lease. Provided that (i) Tenant is not in default under this Lease; (ii) this Lease is in full force and effect; and, (iii) Tenant has not assigned this Lease and is in physical occupancy of at least fifty percent (50%) of the area of the Premises (excluding transfers not requiring Landlord's consent hereunder); then, and only then, Tenant shall have the right to lease the First Opportunity Space, as the First Opportunity Space becomes available upon the

expiration or sooner termination of the Xerox Lease subject, however, to the following terms and conditions.

- C. Landlord's Notice. If Landlord proposes to lease the First Opportunity Space to a prospective tenant after the expiration or sooner termination of Xerox Lease and all conditions set forth in Subparagraph B above are satisfied, then Landlord shall notify Tenant in writing ("Landlord's Notice") of the following basic business terms upon which Landlord is willing to lease such space (collectively referred to herein as the "Basic Business Terms"): (i) the description of the particular First Opportunity Space then available (the "Proposed Space"); (ii) the term of the lease; (iii) the tenant improvements Landlord is willing to construct or that it will require to be constructed and the contribution Landlord is willing to make to pay for such tenant improvements, if any; (iv) the rent for the initial term or the formula to be used to determine such rent (including, if applicable the rental commencement date, Tenant's share of taxes, assessments, operating expenses, insurance costs and the like); (v) any option or options to extend (including the rent to be charged or the formula for such charges during the extension periods); and (vi) any other material business term Landlord elects to specify.
- D. Second Lease. If, within five (5) business days after receipt of Landlord's Notice, Tenant delivers to Landlord in writing Tenant's agreement to lease the Proposed Space on the Basic Business Terms stated in Landlord's Notice, and within five (5) business days after Tenant's receipt of a written lease in substantially the same form as this Lease with the Basic Business Terms incorporated therein (the "Second Lease"), Tenant executes and returns to Landlord the Second Lease, Landlord shall lease to Tenant and Tenant shall lease from Landlord the Proposed Space on the terms and conditions contained in the Second Lease, provided, however, that this Lease shall be modified to include, and the Second Lease shall include, a cross-default provision providing that Tenant will be in default under both the Second Lease and this Lease, if Tenant is in default under either Lease.
- E. Failure to Exercise. If Tenant does not indicate in writing its agreement to lease the Proposed Space on the terms contained in Landlord's Notice within the five (5) business day time period, or if Tenant does not execute and return to Landlord the Second Lease within five (5) business days after Tenant's receipt thereof, then Landlord shall thereafter have the unfettered right to lease the Proposed Space to any third party on terms and conditions not substantially more favorable to the tenant than those set forth in the Basic Business Terms. For purposes of this subparagraph E., the term "substantially more favorable" shall mean a rental rate of less than ninety-five percent (95%) of the rental rate offered to Tenant in the Basic Business Terms and/or a deviation of more than five percent (5%) in the overall economics of the offer described in the Basic Business Terms. If Landlord proposes to lease the Proposed Space on substantially more favorable terms than those submitted to Tenant, then Landlord must resubmit the modified terms to Tenant, and Tenant shall have the right to accept or reject such modified terms, in accordance with subparagraphs C. and D. above.
- F. Termination. The provisions of this Paragraph shall terminate upon (i) the expiration of earlier termination of this Lease; or (ii) any assignment by Tenant of its interest in this Lease or the subletting by Tenant of substantially all of the Premises for substantially all of the remainder of the Lease Term (except for any Transfer not requiring Landlord's consent under this Lease). Tenant's failure to exercise its right to lease granted herein as to any particular Proposed Space shall not terminate Tenant's right to lease any subsequently available Proposed Space.

41. Effectiveness of Lease. The effectiveness of this Lease is expressly conditioned upon (i) the execution by Landlord and Xerox of an amendment to the Xerox Lease, which amendment shall be in form and substance acceptable to Landlord in Landlord's sole discretion and will, among other things, reduce the size of the premises leased by Xerox under the Xerox Lease by terminating the Xerox Lease with respect to the Premises leased to Tenant herein, and (ii) the granting of written consent by The Sumitomo Bank Limited ("Sumitomo") to the above-described amendment of the Xerox Lease and to this Lease. If either of the aforementioned conditions are not satisfied on or before June 15, 1996, this Lease shall automatically terminate and shall be of no further force or effect. Upon satisfaction of both of the aforementioned conditions by June 15 1996, this Lease shall not terminate pursuant to this Paragraph 42, and shall be binding on and enforceable against Landlord and Tenant. Landlord shall notify Tenant in writing promptly upon satisfaction of both conditions.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set forth below.

LANDLORD:

SOUTH BAY/EDENVALE ASSOCIATES,
a California general partnership

By: M & ASSOCIATES, a California
general partnership

By: /s/ James D. Mair

Printed: James D. Mair

Title: General Partner

Dated: 6/11/96

TENANT:

WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Richard M. Salvi

Printed: Richard M. Salvi

Title: Vice President

Dated: 6/4/96

EXHIBIT "A"
BUILDING SITE PLAN
[To Be Attached]

EXHIBIT A

All that certain real property situate in the City of San Jose, County of Santa Clara, State of California, described as follows:

Parcels 2 and 3, as shown on the Parcel Map filed for record in the Office of the Recorder of the County of Santa Clara, State of California on September 26, 1991 in Book 630 of Maps, Pages 39 and 40.

EXHIBIT "B"

All that certain real property situated in the City of San Jose, County of Santa Clara, State of California, described as follows:

Parcel 1, as shown on the Parcel Map filed for record in the Office of the Recorder of the County of Santa Clara, State of California on September 26, 1991 in Book 630 of Maps, Pages 39 and 40.

EXHIBIT "C"

IMPROVEMENT AGREEMENT

This Improvement Agreement is made part of that Lease dated June 3, 1996 (the "Lease") by and between SOUTH BAY/EDENVALE ASSOCIATES, a California general partnership ("Landlord") and WESTERN DIGITAL CORPORATION, a Delaware corporation ("Tenant"). Landlord and Tenant agree that the following terms are part of the Lease:

1. Purpose of Improvement Agreement. The purpose of the Improvement Agreement is to set forth the rights and obligations of Landlord and Tenant with respect to the construction of the Tenant Improvements in the Premises.

2. Definitions. As used in this Improvement Agreement, the following terms shall have the following meanings, and initially capitalized terms which are not defined below, but which are defined in the Lease and which are used in this Improvement Agreement, shall have the meanings ascribed to them in the Lease:

(a) Final Tenant Improvement Plans. The term "Final Tenant Improvement Plans" shall mean those plans and specifications for the Tenant Improvements to be constructed by Tenant which are to be prepared by Tenant and approved by Landlord pursuant to Paragraph 3 below.

(b) Tenant Improvements. The term "Tenant Improvements" shall mean the tenant improvements to be constructed by Tenant in accordance with the Final Tenant Improvement Plans.

(c) TI Costs. The terms "TI Costs" shall mean and include all costs and expenses incurred by Tenant for any or all of the following: architectural and engineering fees and costs, all building permits fees and taxes and other governmental fees and taxes required for the construction and occupancy of the Tenant Improvements. all of Tenant's contractors' and subcontractors' prices and fees for constructing the Tenant Improvements, including the cost of all partitions, utility systems, fire sprinkler systems, heating, ventilating and air conditioning systems and equipment, roof screens, electrical distribution facilities, wiring, lighting, ceilings, installations of fixtures and equipment, restrooms, carpeting, and all other improvements and alterations required to prepare the Building for occupancy by Tenant in accordance with the Final Tenant Improvement Plans. However, "TI Costs" shall not include any costs and expenses incurred (a) to remove any cabling left in the Premises by the prior tenant of the Building, (b) to repair any water leaks at the joints between the window frame and the exterior walls of the Building, (c) to repair the roof of the Building so that it is water tight, or (d) to repair the HVAC system in the Premises so that it is in good condition and repair; it being understood and agreed that Landlord shall perform such work, at no cost to Tenant, as provided in Paragraph 14 of the Lease.

(d) Maximum TI Allowance. The term "Maximum TI Allowance" shall mean a sum equal to Six Hundred Sixty-five Thousand Five Hundred Fifty Dollars (\$665,550).

(e) Excess TI Costs. The term "Excess TI Costs" shall mean all TI Costs in excess of the Maximum TI Allowance.

3. Design of Tenant Improvements.

(a) Preliminary Tenant Improvement Plans. Tenant shall, on or before 6/15/96, prepare and deliver to Landlord for its review and approval preliminary plans for the Tenant Improvements, which preliminary plans shall show Tenant's desired floor plan, layout, electrical requirements, HVAC requirements and general requirements in sufficient detail in order to permit Tenant's architect to prepare working drawings for the Tenant Improvements (the "Preliminary Tenant Improvement Plans"). Within five (5) business days after receipt of the Preliminary Tenant Improvement Plans, Landlord shall either approve such plans or notify Tenant in writing of any request for changes to the Preliminary Tenant Improvement Plans. If Landlord submits any request for changes, the parties shall meet and confer to develop Preliminary Tenant Improvement Plans that are acceptable to both Landlord and Tenant within five (5) business days after Landlord has notified Tenant of its request for changes.

At the time Tenant submits its Preliminary Tenant Improvement Plans to Landlord, Tenant shall inquire of Landlord in writing whether Landlord will require any of the proposed Tenant Improvements to be removed or surrendered at the expiration (or earlier termination) of the Lease Term. Landlord shall have ten (10) days following receipt of Tenant's written inquiry to respond to the same. In the absence of any such written inquiry by Tenant, Landlord shall give Tenant written notice, not less than ninety (90) days prior to the expiration of the Lease Term, of any of the Tenant Improvements Landlord requires to be removed. Failure of Landlord to respond timely to Tenant's inquiry or to otherwise give timely notice of the Tenant Improvements, if any, Landlord requires to be removed at the expiration (or earlier termination) of the Lease Term, shall constitute Landlord's consent to the surrender of such Tenant Improvements with the Premises. Unless Landlord requires that Tenant remove any such Tenant Improvements, the same shall, once constructed or installed in the Premises by or for Tenant, become the property of Landlord upon termination of the Lease and shall remain upon and be surrendered with the Premises at the termination of the Lease. The preceding sentence to the contrary notwithstanding, so long as no Event of Default by Tenant exists under the Lease as of the date(s) Tenant desires to remove any Tenant Improvements from the Premises and provided, further, that Tenant notifies Landlord in writing not later than 180 days prior to the expiration of the Lease Term of the Tenant Improvements that Tenant desires to remove from the Premises prior to the expiration of the Lease Term, Tenant shall have the right to remove any such Tenant Improvements from the Premises prior to the expiration of the Lease Term, except that Tenant shall then restore the portion of the Premises from which such Tenant Improvements are removed to the condition existing immediately prior to the installation or construction of such Tenant Improvements so removed and Tenant shall repair all damage, if any, to the Premises caused by such removal. Any Tenant Improvements that Landlord timely requests be removed from the Premises at the expiration (or earlier termination of the Lease Term), shall be so removed by Tenant at its sole cost, and Tenant shall repair all damage, if any, to the Premises caused by such removal.

(b) Development and Approval of Tenant Improvement Plans. Once the Preliminary Tenant Improvement Plans have been approved by Landlord and Tenant, Tenant shall cause Tenant's architect to complete and submit to Landlord for its approval final working drawings for

the Tenant Improvements that are consistent with and are logical evolutions of the Preliminary Tenant Improvement Plans approved by the parties. Landlord shall approve the final working drawings for the Tenant Improvements or notify Tenant in writing of its specific request for changes within five (5) business days after receipt of the working drawings from Tenant. If Landlord submits any request for changes, the parties shall confer and reach agreement upon the final working drawings for the Tenant Improvements within five (5) business days after Landlord has notified Tenant of its request for changes. When Landlord and Tenant agree upon the final working drawings for the Tenant Improvements, a representative of each shall sign the same. The final working drawings so approved by Landlord and Tenant are referred to herein as the "Final Improvement Plans".

4. Construction of Tenant Improvements. Prior to the commencement of the construction of the Tenant Improvements, Tenant shall submit to Landlord for its approval Tenant's general contractor for the Tenant Improvements. Landlord shall have the right but not the obligation nor the duty, to disapprove any such contractor who, in Landlord's good faith determination, is financially or otherwise unqualified. The failure of Landlord to disapprove a contractor shall not constitute a warranty that any contractor not so disapproved is in fact qualified. Following Landlord's approval of the Final Tenant Improvement Plans and Tenant's contractor, Tenant shall promptly commence construction and installation of the Tenant Improvements and shall thereafter pursue the same diligently to completion. Any damage to the Building caused by Tenant or its contractors or subcontractors in connection with the construction of the Tenant Improvements shall be repaired at Tenant's expense. Tenant shall be responsible for obtaining all necessary permits and approvals required for the construction and installation of the Tenant Improvements and Landlord agrees to reasonably cooperate at no cost to it with Tenant in obtaining the same. All work done in connection with the Tenant Improvements shall be performed in compliance with all applicable laws, ordinances, rules, orders and regulations of all federal, state, county and municipal governments or agencies now in force or that may be enacted hereafter and with all directives rules and regulations of the fire marshal, health officer, building inspector or other proper officers of any governmental agency now having or hereafter acquiring jurisdiction.

5. Changes to Approved Plans. There shall be no changes to the approved Final Tenant Improvement Plans without the prior written consent of Landlord except that Landlord's consent shall not be required for non-material deviations rendered necessary or appropriate by on-site conditions or required by building inspectors or similar government agencies. All change orders requested by Tenant shall be made in writing. Any change not approved or disapproved by Landlord within five (5) business days of Landlord's receipt of detailed plans and specifications therefor shall be deemed disapproved. Landlord shall not withhold or delay its consent unreasonably.

6. Purpose of Maximum TI Allowance. The Maximum TI Allowance shall be used by Tenant to design and construct the Tenant Improvements in the Building.

7. Payment of TI Costs. The TI Costs for the Tenant Improvements shall be paid by Landlord and Tenant as follows:

(a) Maximum TI Allowance. Landlord shall contribute the Maximum TI Allowance toward the TI Costs, in the manner set forth below, but subject to the satisfaction of the conditions set forth in Paragraphs 8 and 9 below. In no event shall Landlord be required to contribute

more than the Maximum TI Allowance toward the costs of designing and constructing the Tenant Improvements.

(b) Excess TI Costs. Tenant shall pay the full amount of all Excess TI Costs, in the manner set forth below.

(c) Progress Payments During Construction. During the course of construction of the Tenant Improvements, each progress payment due to Tenant's contractor or to any subcontractor or material supplier shall be paid by Landlord and Tenant as follows: (i) Landlord shall pay a fraction of each progress or other payment, which fraction shall have as its numerator the Maximum TI Allowance and shall have as its denominator Tenant's estimate of the total TI Costs to complete construction of the Tenant Improvements (it being understood and agreed, however, that in no event shall Landlord be required to contribute more than the Maximum TI Allowance toward the costs of designing and constructing the Tenant Improvements); and (ii) Tenant shall pay the balance of each progress or other payment. If Tenant's construction contract does not otherwise provide for a retention of at least ten percent (10%) then Landlord's portion of each progress payment shall be reduced by ten percent (10%) and such ten percent (10%) retention shall be paid by Landlord to Tenant thirty-five (35) days after the timely filing of a Notice of Completion or, if no Notice of Completion is filed, then ninety-five (95) days after substantial completion of the Tenant Improvements, in each case assuming such period shall expire without the filing of any lien claims. If lien claims are filed, such retention shall be paid within ten (10) days after presentation to Landlord of appropriate recorded lien releases, surety bonds or other evidence satisfactory to Landlord that such lien has been removed or released from record title.

8. Conditions Precedent. Landlord shall not be obligated to make any disbursements of the Maximum TI Allowance to or for the benefit of Tenant unless at the time of each request for disbursement, all of the following conditions are satisfied:

(a) Such request shall be made (except with respect to disputed claims made within ninety (90) days after completion) prior to the date which is one (1) year following the Commencement Date;

(b) There shall exist no Event of Default hereunder or under the Lease;

(c) The Lease shall be in full force and effect;

(d) Tenant shall have furnished to Landlord bills and statutory releases of lien rights covering work done and/or materials furnished in connection with the construction of the Tenant Improvements.

9. Disbursement Procedures. Tenant may request disbursements from the Maximum TI Allowance not more frequently than once each month. No disbursements shall be made until Landlord has approved the Final Tenant Improvement Plans. Each request for disbursement shall be accompanied by (i) an itemized statement, in form and content reasonably acceptable to Landlord; (ii) statutory lien releases from all persons and entities providing work or materials covered by such statement; and (iii) invoices, vouchers, statements, affidavits and/or other documents in a form

reasonably acceptable to Landlord which substantiate and justify the disbursement requested. Landlord shall make disbursements of the Maximum TI Allowance within thirty (30) days after Landlord's receipt of each fully completed disbursement request directly to Tenant or, at Landlord's option upon notice to Tenant, directly to contractors, laborers or suppliers entitled thereto. Prior to or at the time of each disbursement hereunder for construction costs, Tenant shall deliver to Landlord statutory lien waivers from Tenant's prime contractor to whom funds were disbursed under the previous disbursement.

10. Inspections. In addition to Landlord's right under the Lease to enter the Premises for the purpose of posting notices of nonresponsibility, Landlord, its officers, agents or employees, shall have the right at all reasonable times to enter upon the Premises and inspect the Tenant Improvements to determine that the same are in conformity with the Final Tenant Improvement Plans and all requirements hereof. Landlord, however, is under no obligation to supervise, inspect or inform Tenant of the progress of construction and Tenant shall not rely upon Landlord therefor. While on the Premises, Landlord shall not unreasonably interfere with the progress of construction.

11. Protection Against Lien Claims. In addition to the Lease, Tenant agrees to fully pay and discharge all claims for labor done and materials and services furnished in connection with the construction of the Tenant Improvements, to diligently file or procure the filing of a valid Notice of Completion upon completion of construction or within ten (10) days thereafter, to diligently file or procure the filing of a Notice of Cessation upon a cessation of labor on the Tenant Improvements for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Premises, the Parcel, or any part thereof or right or interest appurtenant thereto.

12. Default. Each of the following events shall constitute an Event of Default hereunder:

(a) Substantial deviations in construction work from the Final Tenant Improvement Plans, without the prior approval of Landlord (not to be withheld or delayed unreasonably) or the appearance of defective workmanship or materials when said deviations or defects are not corrected within thirty (30) days after written notice thereof;

(b) Cessation of construction work prior to the completion of the Tenant Improvements for a continuous period of thirty (30) days or more for causes other than causes beyond the reasonable control of Tenant;

(c) The filing of any claim of lien against the Premises, the Parcel, or any part thereof, in connection with the Tenant Improvements, and the continued maintenance of said claim of lien for a period of forty-five (45) days after notice to Tenant thereof without discharge or satisfaction thereof or provision therefor satisfactory to Landlord (at Landlord's sole discretion), provided that recording of a surety bond pursuant to the terms of Civil Code Section 3143 in the amount of one and one-half (1 1/2) of the amount of such lien claim shall constitute satisfactory provision; or

(d) The occurrence of a Event of Default by Tenant under the Lease.

13. Remedies. In the event of a default by Tenant hereunder, Landlord shall thereafter have no further obligation to disburse any portion of the Maximum TI Allowance, unless and until such default is cured. In addition, Landlord shall have the right (but not the obligation) to enter upon the Premises and take over and complete the construction of the Tenant Improvements, to make disbursements from the Maximum TI Allowance, and to discharge or replace the contractors or subcontractors performing such work. In no event shall Landlord be required to expend its own funds to complete the Tenant Improvements if the Maximum TI Allowance is insufficient. Where substantial deviations from the Final Tenant Improvement Plans have occurred which have not been approved in accordance with Paragraph 5 above, or defective or unworkmanlike labor or materials are being used in construction of the Tenant Improvements, Landlord shall have the right to immediately order stoppage of all construction and demand that such condition be corrected. After issuance of such an order in writing, no further work shall be done on the Tenant Improvements without the prior written consent of Landlord unless and until said condition has been corrected to Landlord's reasonable satisfaction, and upon correction, Landlord shall promptly consent to the continuation of construction.

14. Evidence of Compliance with Government Regulations. Upon completion of the Tenant Improvements, Tenant shall furnish to Landlord copies of such permits of occupancy as may be required by any public authority having jurisdiction.

15. Indemnification. Tenant shall, at Tenant's expense, defend, indemnify, save and hold Landlord harmless from any and all claims, demands, losses, expenses, damages (general, punitive or otherwise but excluding lost profits) causes of action (whether legal or equitable in nature) asserted by any person, firm, corporation, governmental body or agency, or entity arising out of the construction of the Tenant Improvements or caused by the use of the Maximum TI Allowance. Tenant shall pay to Landlord upon demand all claims, judgments, damages, losses or expenses (including attorneys' fees) incurred by Landlord as a result of any legal action arising out of the construction of the Tenant Improvements. The provisions of this paragraph shall not apply to claims, demands, losses, expenses, damages, judgments and causes of action arising from or related to any act, neglect or misconduct of

Landlord or its Agents. The obligations of Tenant under this Paragraph 15 shall survive the expiration or earlier termination of the Lease.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set forth below.

LANDLORD:

SOUTH BAY/EDENVALE ASSOCIATES,
a California general partnership

By: M & ASSOCIATES, a California
general partnership

By /s/ James D. Mair

Printed: James D. Mair

Title: General Partner

Dated: 6/11/96

TENANT:

WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Richard M. Salvi

Printed: Richard M. Salvi

Title: Vice President

Dated: 6/4/96

EXHIBIT "D"

LIST OF HAZARDOUS MATERIALS PERMITTED TO BE USED BY TENANT

FIRST AMENDMENT

This First Amendment to Lease ("First Amendment") is made by and between WESTERN DIGITAL CORPORATION, A DELAWARE CORPORATION, ("Tenant") and SOUTH BAY/EDENVALE ASSOCIATES, a California general partnership ("Landlord"), as of the date set forth below with reference to the following facts:

A. By Lease Agreement dated June 14, 1996 (the "Lease"), Landlord has leased to Tenant certain property commonly known as 5863 Rue Ferrari Drive, San Jose, California.

B. Landlord and Tenant desire to amend the Lease to acknowledge their mutual understanding to extend the term of the Lease as provided below.

NOW THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Landlord and Tenant mutually agree that the address of Tenant, as defined in the second paragraph of the Lease, shall be changed from 5853 Rue Ferrari Drive, San Jose, California to 5863 RUE FERRARI DRIVE, SAN JOSE, CALIFORNIA.

All other terms and conditions of the Lease shall remain the same and in full force and effect.

As entered into this ____ day of _____, 1996.

LANDLORD:

SOUTH BAY/EDENVALE ASSOCIATES,
a California general partnership

By: [SIGNED]

James D. Mair

Title: General Partner

Dated: _____

TENANT:

WESTERN DIGITAL CORPORATION,
a Delaware corporation

By: /s/ Richard M. Salvi

Richard M. Salvi

Title: Vice President

Dated: 8/7/96

SINGLE TENANT INDUSTRIAL LEASE AGREEMENT

between

SHUWA INVESTMENTS CORPORATION,

a California corporation

"Lessor"

and

READ-RITE CORPORATION,

a Delaware corporation

"Lessee"

dated as of

August 24, 1992

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SINGLE TENANT INDUSTRIAL LEASE

1. PARTIES.

This Lease, dated for reference purposes only, August 24, 1992, is made by and between SHUWA INVESTMENTS CORPORATION, a California corporation (herein called "Lessor") and READ-RITE CORPORATION, a Delaware corporation (herein called "Lessee").

2. PREMISES.

Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, the improved real property situated in the City of Fremont, County of Alameda, State of California, commonly known as 44100 Osgood Road, outlined on Exhibit A attached hereto (the "Premises"), including the existing two (2) story concrete tilt-up building thereon (the "Building"), including rights of access and the use of the roof of the Building.

3. TERM.

3.1. TERM. This Lease shall constitute the binding agreement of Lessor and Lessee, and the obligations of Lessor and Lessee shall be effective, upon the execution and delivery of this Lease by both Lessor and Lessee. The term of this Lease (the "Lease Term") shall be for a period of approximately ten (10) years, commencing on March 1, 1993 (the "Scheduled Commencement Date"), provided such date may be extended by "Force Majeure", as hereinafter provided, and ending on February 28, 2003 (the "Expiration Date"), as such date may be extended by "Force Majeure", as hereinafter provided, unless sooner terminated pursuant to any provision hereof. Subject to Sections 9 (Damage and Restruction) and 14 (Condemnation), Lessor shall deliver possession of the Premises to Lessee on the later of (i) September 1, 1992, or (ii) the date Lessee unconditionally waives or removes all of the conditions precedent to the commencement of the Lease Term as provided in Section 3.5 hereof (the "Delivery Date").

3.1.1 If, following the Delivery Date a Force Majeure event occurs, and this Lease is not otherwise terminated in accordance with the terms hereof, the Scheduled Commencement Date and the Expiration Date shall be delayed by the number of days Lessee is prevented, despite commercially reasonable efforts undertaken by Lessee, in completing construction of any tenant improvements to the Premises necessary for Lessee to conduct its business operations in the Premises. As used in this Lease, the term "Force Majeure" means delays in the construction of the Premises caused directly by acts of war, public insurrection, shortage of materials, acts of God, or other causes beyond the reasonable control of Lessee, exercising commercially reasonable

due diligence. "Force Majeure" shall specifically not include delays caused by inclement weather of the type that may be expected in Northern California, delays caused by the general contractor or any subcontractor, delays caused by governmental requirements in the construction of the improvements, or delays caused by materials requiring long lead times. As used in this Lease, the term "Commencement Date" shall mean the date when the Lease Term commences.

3.1.2 Notwithstanding anything to the contrary in this Lease, if the Commencement Date shall not have occurred on or before March 1, 1994, either party, shall have the right to terminate this Lease without liability to the other party as a result of such termination; provided, however, any termination of this Lease shall not affect the liability of any party to the other accruing prior to the date of such termination.

3.2. [INTENTIONALLY OMITTED].

3.3. CONDITION OF PREMISES. Except as otherwise expressly provided in this Lease to the contrary, Lessor shall not be responsible for the construction or installation of any improvements or facilities in and to the Premises and/or the Building. Subject to the terms of this Section 3.3 and except as provided in Section 7.3 hereof, Lessee shall accept delivery of possession of the Premises in its "AS IS" and "WITH ALL FAULTS" condition existing as of the Delivery Date, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record; provided, however, that such acceptance by Lessee shall not release Lessor from its obligations under this Lease, including, without limitation, Sections 3.3.1, 7.1 and 7.3 of this Lease. Except, as otherwise expressly provided in this Lease, Lessee acknowledges that neither Lessor nor Lessor's employees or agents has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business and that Lessee is relying solely on its own investigations, examinations and inspections of the Premises and those of Lessee's representatives and is not relying in any way on any information furnished by Lessor or any of its agents or representatives (including, without limitation, Lessor's real estate brokers).

3.3.1 Lessor shall deliver the Premises to Lessee on the Delivery Date clean and free of debris, and hereby warrants to Lessee that the electrical, plumbing, lighting and mechanical systems of the Building (referred to in this Lease as the "Building Systems"), and the loading doors and other improvements constructed and installed in the Building (including the roof, the roof membrane and other structural elements) existing as of the Delivery Date shall be in good operating condition and repair as of the Commencement Date and in compliance with all applicable building regulations, laws, statutes, ordinances, rules, orders and

covenants and restrictions of record applicable to the Building in its "AS IS" condition as of the Delivery Date. If non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's sole cost and expense (and not charged to Lessee), and such repair and correction shall be the sole and exclusive remedy of Lessee as against Lessor. If Lessee does not give Lessor written notice of a non-compliance with this warranty within one hundred eighty (180) days of the Commencement Date, correction of that non-compliance shall, except as otherwise provided in this Lease, be the obligation of Lessee, at Lessee's sole cost and expense. Notwithstanding anything to the contrary in the foregoing, Lessor's obligation to repair latent defects in the original construction or design of any Building Systems and improvements (including the roof, roof membrane and structural elements of the Building) shall not be subject to said one hundred and eighty (180) day statute of limitations.

3.4. EARLY POSSESSION. Lessee shall have the right to accept possession and commence occupancy of the Premises, at any time prior to the Scheduled Commencement Date and after the satisfaction or waiver in writing by Lessee of the conditions precedent set forth in Section 3.5 below. If Lessee commences occupancy for other than construction purposes (including installation of fixtures, equipment and furnishings), prior to the Scheduled Commencement Date, the Lease Term shall commence on such date (but such occupancy shall not advance the Expiration Date); provided, however, during any period of occupancy of the Premises prior to the Scheduled Commencement Date, Lessee's obligation to pay rent shall be limited to the payment of Operating Expenses, as provided in Section 4.2 hereof, in the ratio that the portion of the Building occupied by Lessee bears to the entire Building. If Lessee elects to accept early possession of the Premises, Lessee shall give written notice to Lessor prior to commencing occupancy thereof.

3.5. CONDITIONS PRECEDENT TO COMMENCEMENT OF LEASE TERM. Notwithstanding anything to the contrary contained in this Lease, this Lease is expressly conditioned upon satisfaction or waiver by Lessee of the conditions precedent provided in this Section 3.5. Upon the failure of any of the conditions precedent set forth below, and provided Lessee has so notified Lessor within the time period set forth below, this Lease shall terminate and neither party shall have any further rights or obligations with respect to this Lease or the Premises accruing from and after the date of termination; provided, however, upon any termination of this Lease in accordance with this Section 3.5, Lessor shall promptly return to Lessee the prepaid rent delivered to Lessor, as provided in Section 4.1.

3.5.1 At Lessee's sole cost and expense, and subject to

that certain Permit to Enter dated as of July 13, 1992 entered into by and between Lessor and Lessee (the "Permit to Enter"), Lessee shall have satisfied itself that any easements encumbering the Premises do not interfere with Lessee's intended use of the Premises and that Lessee can obtain all necessary permits and approvals from the City of Fremont and any other governmental entity with jurisdiction over the intended use of the Premises. This condition precedent shall be deemed waived unless Lessor has received written notice of Lessee's unequivocal written election to terminate this Lease no later than September 15, 1992.

3.5.2 At Lessee's sole cost and expense, and subject to the Permit to Enter, Lessee shall have satisfied itself concerning the environmental condition of the Premises; provided, however, the satisfaction or waiver of this condition shall not impair or constitute a waiver by Lessee of any of its rights under Section 7.3 of this Lease or be deemed to be or construed as evidence that the Premises are free of Hazardous Materials (as that term is hereinafter defined) or that no Releases (as that term is hereinafter defined) have occurred at the Premises. This condition precedent shall be deemed waived unless Lessor has received written notice of Lessee's unequivocal written election to terminate this Lease no later than September 15, 1992.

3.5.3 At Lessee's sole cost and expense, and subject to the Permit to Enter, Lessee shall have completed such due diligence inspections of all Building Systems (including, without limitation, Utility Installations (as that term is hereinafter defined)) and existing improvements of the Building. This condition precedent shall be deemed waived unless Lessor has received written notice of Lessee's unequivocal written election to terminate this Lease no later than September 1, 1992. Subject to the foregoing, Lessee may, at any time, prior to September 1, 1992, deliver to Lessor a written notice describing any Building Systems and improvements that, in Lessee's opinion, require maintenance or repair and, provided the total cost to Lessor (as reasonably estimated by Lessor) of performing such repairs and maintenance actions is less than \$100,000, Lessor, at its sole cost and expense (and not charged to Lessee), shall cause such repair and maintenance to be completed as promptly as commercially practicable and in no event later than the Scheduled Commencement Date.

3.5.4 In the event Lessee determines that despite its exercise of due diligence it is unwilling or unable to remove any of the conditions precedent set forth in Sections 3.5.1 or 3.5.2 prior to September 15, 1992, then, provided Lessee shall deliver to Lessor (i) a certificate signed by its chief financial officer that Lessee has paid or incurred in excess of \$50,000 in out of pocket expenses (exclusive of attorneys' fees) in connection with its due diligence investigation of the Premises, and (ii) a certificate signed by Mr. James Williams, Facilities Manager for Lessee, stating with reasonable specificity the matters of due diligence as to which Lessee has been unable to satisfy itself (The "Facilities

Manager's Certificate"), Lessee shall have the right to extend the expiration of the due diligence period until November 1, 1992, solely as to the satisfaction of the matters noted in the Facilities Manager's Certificate.

4. RENT.

4.1. BASE RENT. Lessee shall pay to Lessor, as base rent for the Premises, the following amounts (the "Base Rent"), without any offset or deduction, in advance, on the first day of each month of the Lease Term hereof:

- (1) the period from the Commencement \$ 68,456.02 Date through the day immediately preceding the first anniversary thereof:
- (2) the period from the first \$109,446.16 anniversary of the Commencement Date through the day immediately preceding the fifth anniversary thereof:
- (3) the period from the fifth \$131,193.70 anniversary of the Commencement Date through the day immediately preceding the seven and one-half year anniversary of the Commencement Date (the "7 1/2 Year Anniversary"):
- (4) the period from the 7 1/2 Year \$144,785.90 Anniversary through the Expiration Date:

Lessee shall pay Lessor upon execution hereof Base Rent for the first full calendar month of the Lease Term. If the Commencement Date is other than the first day of the calendar month, Lessee shall pay the Base Rent for the first partial month of the Lease Term on the Commencement Date and the Base Rent delivered by Lessee upon execution of this Lease shall be applied as hereinabove provided. Rent for any period during the Lease Term which is for less than one (1) month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated at the end of this Lease or to such other persons or at such other places as Lessor may designate in writing.

4.2. OPERATING EXPENSES. Subject to Section 4.2(c), Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, the actual cost of all Operating Expenses, as hereinafter defined, during each calendar year of the Lease Term, in accordance with the following provisions:

(a) "Operating Expenses" is defined, for purposes of this Lease, as all reasonable costs and expenses incurred by Lessor, if any, for:

following: (i) The operation, repair and maintenance of the

(aa) The Premises, including, without limitation, parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, irrigation systems, exterior lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) The cost of (i) painting the Building one (1) time each five (5) years during the term of this Lease, (ii) resaturation of the roof membrane one (1) time during the term of this Lease at a cost not to exceed \$5,000; and

(dd) Any other service expressly provided in this Lease as the responsibility of Lessor, excluding any such service which this Lease provides cannot be charged back to Lessee.

(ii) The deductible portion of any insured loss; provided, however, unless otherwise approved in advance by Lessee, the deductible under any insurance policy maintained by Lessor shall not exceed \$25,000 per occurrence.

(iii) A management fee (the "Management Fee") equal to \$22,700 per year, commencing in the calendar year during which the Commencement Date occurs; provided, however, the Management Fee shall not be payable to Lessor from and after a transfer of title to the Premises by the named Lessor under this Lease where the named Lessor is released from its obligations under Section 7.3.2 of this Lease pursuant to Section 16.2 of this Lease.

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor; provided, however, unless otherwise approved in advance by Lessee, the cost of any flood, earthquake or pollution coverage maintained, if at all, by Lessor shall not be an Operating Expense.

(v) The amount of Real Property Taxes paid by Lessor.

(vi) The cost of water, gas and electricity to

service the Premises.

(vii) Capital improvements, expenditures and/or replacements to all or any portion of the Premises (including any Building Systems), except as hereinafter provided.

(b) "Real Property Taxes" is defined, for purposes of this Lease, as any form of real estate tax, assessment, levy, fee or charge, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, transit charges, housing and local employment assessments, open space charges or any other tax, assessment, levy or fee, of any kind, unforeseen as well as foreseen, assessed, levied, charged, confirmed or imposed on the Premises or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Premises or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Premises. The term "Real Property Tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "Real Property Tax", or (ii) assessments imposed by any governmental agency for services provided to the Premises such as police, fire protection, street, sidewalk and road maintenance, refuse removal and/or for other governmental services. The term Real Property Taxes shall also include all costs, fees and expenses of contesting by appropriate legal proceedings the amount or validity of any Real Property Taxes, or (iii) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Premises, or (iv) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof. Notwithstanding anything to the contrary in this Section 4.2, Lessee shall not be responsible for, and the term "Real Property Taxes" shall not include, any increases in real property taxes that results from a change in ownership of the Premises or any portion thereof consummated by Lessor or any of Lessor's Affiliates at any time prior to the three year anniversary of the Commencement Date. For purposes of the preceding sentence, the term "change in ownership" shall have the meaning given the term in California Revenue and Taxation Code Sections 60-62, or any successor statute or amendments to these sections.

(c) Except as otherwise hereinafter provided, Operating Expenses shall be payable by Lessee to Lessor monthly, together with the next installment of Base Rent, based on reasonably detailed statements of actual expenses incurred or paid by Lessor submitted to Lessee not less than twenty (20) days in advance of the next installment of Base Rent; provided, however, statements submitted for (i) installments of Real Property Taxes shall be payable by Lessee not later than thirty (30) days prior to the last

due date prior to imposition of any penalty or other charge for the late payment thereof, (ii) insurance premiums maintained by Lessor shall be payable by Lessee not later than thirty (30) days prior to the payment date, and (iii) the Management Fee shall be payable by Lessee in equal monthly installments payable, commencing on the Commencement Date, together with the payment of Base Rent. Lessee shall have the right, upon written notice to, and upon the approval by Lessor, which approval shall not be unreasonably withheld, to assume directly any and all of the maintenance and repair obligations of the Premises set forth herein, whereupon the cost and expense associated therewith shall not be included in Operating Expenses. Notwithstanding the foregoing, Lessor may at any time rescind its consent and authorization to Lessee to assume the responsibility for any maintenance and repair obligation that is otherwise an Operating Expense if Lessor determines that the quality, timeliness, and scope of work performed by Lessee falls below that which Lessor would provide for a building comparable to the Building and Lessee fails to correct such deficiency or failure within thirty (30) days following notice thereof from Lessor. In the event that Lessee pays Operating Expenses directly, Lessee shall deliver to Lessor, if requested by Lessor, a cancelled check or other evidence that such Operating Expense has been paid.

(e) Operating Expenses shall not include (i) the cost to maintain the structural elements of the Building, including, the roof, the roof membrane (except as provided in Section 4.2 (a)), the foundation and the internal load bearing walls and columns (except to the extent any of the foregoing are damaged by Lessee or, subject to Section 4.4 hereof, substantially altered by Lessee); (ii) any management fee paid to Lessor; (iii) interest on debt or amortization payments on any mortgage or mortgages, and rental under any ground or underlying lease or leases; (iv) Lessor's general corporate overhead and general administrative expenses; (v) any other expense which under generally accepted accounting principles and practices would not be considered an Operating Expense; (vi) costs incurred due to violation by Lessor of the terms and conditions of this Lease, and (vii) except as otherwise expressly provided in this Lease, any cost or other expense incurred with respect to the investigation, removal, remediation, containment, clean-up or other response associated with or pertaining to the actual or alleged presence of Hazardous Materials at, on, beneath or in the vicinity of, the Premises or to the actual or threatened Release of Hazardous Materials at, on, beneath or in the vicinity of, the Premises.

(f) Except as otherwise herein provided to the contrary, the cost of making capital improvements to the Premises to comply with all newly enacted federal, state or local laws shall be deemed an Operating Expense. If the capital improvement is triggered by Lessee's particular use of the Premises or by Lessee's alteration to or of the Premises, Lessee shall bear the entire cost thereof. In all other instances, Lessor shall pay the cost thereof and Operating Expenses hereunder during the balance of the Lease Term

(including extensions) shall be adjusted to amortize the cost of such capital improvement over its useful life (as reasonably determined by Lessor); provided, however, if the cost passed through to Lessee as an Operating Expense for such capital improvements exceeds fifty percent (50%) of the Operating Expenses payable during the preceding twelve (12) month period, Lessee shall have the right to terminate this Lease, unless Lessor, upon receipt of such termination notice, elects to pay such portion of the amortized cost in excess of such amount. For purposes of this paragraph, the cost of Operating Expenses otherwise assumed and paid for by Lessee shall be included in the calculation of Operating Expenses paid by Lessee for the immediately preceding twelve (12) month period. The foregoing limitation on the prospective pass through of the cost of capital improvements is personal to the named tenant under this Lease and shall not inure to the benefit of any assignee of the named tenant under this Lease, other than an Affiliate of Lessee (as defined in Section 12.1 hereof).

(g) Lessor shall regularly consult with Lessee to review anticipated and incurred costs of Operating Expenses and to review proposals of Lessee to reduce the costs thereof.

4.3. OPERATING EXPENSE STATEMENTS. On or before April 1 of each calendar year during the Lease Term (or as soon thereafter as practicable), Lessor shall deliver to Lessee a statement setting forth Lessor's Operating Expenses for the preceding calendar year prepared by a certified public accountant designated by Lessor. If such statement shows that the amounts previously paid to Lessor by Lessee are less than the amount of Operating Expenses actually paid or incurred by Lessor for the previous calendar year, Lessee shall pay the deficiency to Lessor within thirty (30) days after the delivery of such statement. If such statement shows that the amounts previously paid to Lessor by Lessee are more than the amount of Operating Expenses actually paid or incurred by Lessor for the previous calendar year, Lessor shall credit any overpayment against the next installment(s) of Base Rent payable under this Lease. Lessee shall have the right, exercisable within twenty-four (24) months after the receipt of a final statement for any calendar year, to object in writing to the accuracy of said final statement and, upon reasonable prior written notice to Lessor, to inspect (at Lessor's office where said books and records are maintained) the books and records of Lessor directly relevant to its operation, maintenance and repair of the Premises and cause an audit of said books and records to be performed by a certified public accountant ("Certified Accountant") to determine if the foregoing final statement is accurate and correct. The Certified Accountant shall be a certified public accounting firm designated by Lessee and reasonably acceptable to Lessor. The Certified Accountant shall certify the results of the audit in a manner satisfactory to Lessor. Such audit shall in all cases be paid for by Lessee unless the audit indicates an overpayment by Lessee of Operating Expenses by 10% or more, in which case Lessor shall pay the cost thereof.

If the audit discloses an overpayment or underpayment of Operating Expenses by Lessee, the amounts due, if any, by Lessee pursuant to this Section 4.3 shall be adjusted accordingly. In making any inspection or audit, Lessee agrees, and shall cause the Certified Accountant to agree, to keep confidential (i) any and all information contained in such books and records and (ii) the circumstances and details pertaining to such examination and any dispute or settlement between Lessor and Lessee arising out of such examination; and Lessee will confirm and cause the Certified Accountant to confirm such agreement in a separate written agreement, if requested by Lessor. Any credit due Lessee for overpayment of Operating Expenses shall be credited against the installments of Monthly Rent next coming due. If Lessee does not object to the final statement for a given year within such twenty-four (24) month period, Lessor's final statement shall be conclusive and binding on Lessee. Objections by Lessee shall not excuse or abate Lessee's obligation to make the payments required under Section 4.2 pending the resolution of Lessee's objection.

4.4. LESSOR'S OBLIGATION TO MAINTAIN STRUCTURAL ELEMENTS OF BUILDING. Notwithstanding anything to the contrary in this Lease, if Lessee substantially alters any of the structural elements of the Building (including the roof and the roof membrane), such alterations are approved in advance by Lessor and the work is performed in accordance with all building code requirements and by contractor(s) approved by Lessor, the cost to maintain said structural elements shall be borne by Lessor and shall not be included in Operating Expenses, except to the extent Lessor is required to repair or correct a defect in construction or an adverse condition attributable to any such defect in construction by Lessee's contractor made by Lessee.

4.5. LESSEE'S RIGHT TO CONTEST. Upon request of Lessee, Lessor shall promptly send to Lessee copies of all notices of changes in assessment of the Premises or any portion thereof. Lessor, in its discretion (and without any obligation so to do), may timely protest the amount of any assessment or the amount of any Real Property Taxes, and Lessor shall credit to Lessee any refund or rebate of Real Property Taxes received by Lessor (net of Lessor's expenses in connection with the prosecution of any such protest) attributable to Real Property Taxes previously paid by Lessee as an item of Operating Expense. If, thirty (30) days after the written request of Lessee to do so, Lessor does not elect to protest the amount or any assessment of Real Property Taxes, then, provided no Event of Default shall then exist under this Lease, Lessee shall have the right to contest such amount by legal proceedings or in such manner as Lessee deems advisable, which proceedings or other actions taken by Lessee, if instituted, shall be conducted diligently on behalf of Lessor or any other entity entitled to legal standing to initiate such proceedings or other actions. Notwithstanding any such contest by Lessee, nothing contained herein shall relieve Lessee of its obligation to pay to Lessor Operating Expenses attributable to Real Property Taxes in

accordance with Section 4.2 hereof during the pendency of such contest or proceeding. Lessor shall cooperate with Lessee in any such proceedings or other actions as may reasonably be required to enable Lessee to prosecute the same effectively, as long as Lessor is not required to bear any cost in connection therewith. If such proceedings or other actions result in a reduction in the amount of Real Property Taxes so imposed, any refund or rebate of Real Property Taxes payable to Lessor and attributable to amounts previously paid by Lessee as an item of Operating Expense shall be paid to Lessee.

5. SECURITY DEPOSIT.

Lessee shall deposit with Lessor the sum of One Hundred Forty Thousand Dollars (\$140,000) upon Lessee's occupancy of all or any portion of the Premises for other than construction purposes (including installation of fixtures, equipment and furnishings), as security for Lessee's faithful performance of Lessee's obligations hereunder (the "Security Deposit"). If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of the Security Deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of the Security Deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore the Security Deposit to the full amount then required of Lessee. Lessor shall deposit the Security Deposit in an interest bearing account in the name of Lessor and with the tax identification number of Lessee, and, so long as no Event of Default then exists hereunder, shall pay on maturity of the investment or, if such investment has no maturity, semi-annually to Lessee any interest earned on such account. The Security Deposit shall be deposited with any "A" rated bank chosen by Lessor and shall be invested initially in one (1) year certificates of deposit, or such other investments as may be mutually agreed to by the parties. In no event shall Lessor incur any liability for the failure of the lending institution to make any payment of interest, Lessor's only obligation being to pay to Lessee any interest paid to Lessor. If Lessee performs all of Lessee's obligations hereunder, the Security Deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) after the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to the Security Deposit.

6. USE.

6.1. USE. The Premises shall be used and occupied for administrative general office, and, subject to and as permitted by applicable local, state and federal law, wafer fabrication, research and development, assembly, production and warehousing of electronic goods and any and all activities associated with or attendant thereto (including, without limitation, maintenance activities and the generation, treatment, storage, disposal, transportation, management or other handling of Hazardous Materials as permitted by this Lease), and for no other purpose.

6.2. COMPLIANCE WITH LAW. (a) Subject to Lessor's obligations under Sections 3.3 (Condition of Premises) and 7.3 (Environmental Regulation), Lessee shall, at Lessee's sole cost and expense, promptly comply with all applicable laws, statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the Lease Term or any part of the Lease Term, relating in any manner to the Premises or the occupation or use by Lessee (or any other person occupying any portion of the Premises under Lessee), of the Premises including, without limitation, all Hazardous Materials Laws (as that term is hereinafter defined) and the federal Americans with Disabilities Act.

(b) Without limiting the generality of the foregoing provisions of this Section 6.2, if at any time as a consequence of Lessee's use or occupancy of the Premises any governmental agency having jurisdiction over the Premises requires, mandates or conditions the issuance or grant of any approval, permit, license or other entitlement relating to the Premises, the construction of additional parking on the Premises, any and all costs and expenses associated therewith, including permitting, impact reports, grading, paving and restripping, shall be the sole responsibility of Lessee, and such work shall be performed in accordance with the requirements of Section 7.4 hereof (and not subject to the \$100,000 exception for waiver of the requirement of Lessor's consent). The location of any additional parking shall be limited to the area identified on Exhibit A to this Lease as the "Additional Parking Area."

7. MAINTENANCE, REPAIRS AND ALTERATIONS

7.1. LESSOR'S OBLIGATIONS.

7.1.1 Subject to the provisions of Sections 3.3 (Condition of Premises), 4.2 (Operating Expenses), 4.4 (Lessor's Obligation to Maintain Structural Elements), 6 (Use), 7.2 (Lessee's Obligations), 7.3 (Environmental Matters), and 9 (Damage or Destruction), and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees,

suppliers, shippers, customers, or invitees, Lessor, at Lessor's expense, subject to reimbursement as an Operating Expense if and to the extent provided pursuant to Section 4.2, shall (y) keep in good condition and repair the foundations, internal structural columns, floor slabs, exterior walls, roof and roof membrane of the Building, as well as the parking lots, walkways, driveways, landscaping, fences, signs and exterior lighting facilities, and (z) replace any Building Systems existing as of the date of this Lease resulting from requirements of applicable law and dilapidations following the expiration of a system's useful life. Lessor's obligations under this Section 7.1.1 shall include, without limitation, the repair of latent defects in the construction and design of the structural elements of the Building (including the roof and roof membrane) and any alterations thereof approved by Lessor in accordance with, and subject to the limitations of, Section 7.4 hereof. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls (except as provided in Section 4.2 hereof), nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Building. Upon written notice from Lessee of any repair or maintenance to be done by Lessor as provided in this Section 7.1, Lessor shall promptly cause such work to be commenced and diligently prosecuted to completion. Lessor shall have no obligation to make repairs under this Section 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs.

7.1.2 Notwithstanding anything to the contrary in this Lease, in the event of an emergency, where immediate maintenance and repair work is required to any portion of the Building that Lessor is obligated to maintain and repair, if Lessor fails to commence such maintenance and repair within twenty-four (24) hours following oral or written notice to Lessor of the existence of such an emergency, or Lessor otherwise authorizes Lessee following such notice, Lessee may, but shall not be obligated to (unless Lessee agrees to perform such work following authorization to do so from Lessor), perform maintenance and repair work otherwise required of Lessor to the extent necessary to secure the health or safety of persons or property until Lessor is able to respond to Lessee's request as otherwise provided in Section 7.1.1, and Lessor shall reimburse Lessee for such cost and expense (or credit Lessee for such amount against the next payment of Monthly Rent due under this Lease).

7.1.3 Except as provided to the contrary in Section 7.1.2, Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair, including without limitation Civil Code Sections 1932(1), 1941 and 1942. Lessor shall not be liable for damages for loss of any kind or nature by reason of Lessor's failure to furnish any services when such failure is caused,

directly or indirectly, by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.1.4 Lessor shall indemnify, defend and hold harmless Lessee from and against any and all cost, claims, losses, damages and expense (including attorneys' fees) directly arising from the negligence or willful misconduct of Lessor, its agents, contractors or employees in the performance of Lessor's obligations under Section 7.1.1 hereof. Notwithstanding anything to the contrary herein, Lessor shall not be responsible for any consequential damages (including, without limitation, lost profits or business opportunities) resulting from the acts or omissions of Lessor, its employees, agents or contractors.

7.2. LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of Sections 3.3 (Condition of Premises), 7.1 (Lessor's Obligations), 7.2(c) (Surrender of Premises), 7.3 (Environmental Matters) and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee hereby agreeing to procure and maintain during the term hereof, at Lessee's expense, a ventilating and air conditioning system maintenance contract reasonably satisfactory to Lessor), electrical and lighting facilities and equipment in the Building, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, and plate glass, located within the Premises. Lessor reserves the right to procure and maintain a ventilating and air conditioning system maintenance contract, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof as an Operating Expense; provided Lessor agrees not to require such maintenance contract so long as Lessee establishes to the reasonable satisfaction of Lessor that Lessee is adequately maintaining such system.

(b) If Lessee fails to perform Lessee's obligations under this Section 7.2 Lessor may, but shall not be obligated to, enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which no notice shall be required) to remedy such default in the performance of any such obligation which remains uncured for such ten (10) day period (or if such matter cannot be cured within such ten (10) day period for reasons outside the reasonable control of Lessee, Lessee has within said ten (10) day period commenced the cure thereof and continues to diligently prosecute such matter to completion, and to perform such obligations on Lessee's behalf and to put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the Interest Rate shall be due and payable

as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the Lease Term, or on any sooner termination of this Lease, subject to Sections 7.3 and 7.4 hereof, Lessee shall surrender the Premises to Lessor in substantially the same condition as received, clean and free of debris, and excepting (i) ordinary wear and tear, (ii) damage and destruction not resulting from the act or omission of Lessee, any subtenant, licensee or other person occupying any portion of the Premises under Lessee, and (iii) conditions caused, created or aggravated by persons or entities other than Lessee or any subtenant, licensee or other person occupying any portion of the Premises under Lessee. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall surrender the Premises to Lessor with all Utility Installations in place, and in good operating condition, excepting (i) normal wear and tear, (ii) damage and destruction not resulting from the act or omission of Lessee any subtenant, licensee or other person occupying any portion of the Premises under Lessee, and (iii) conditions caused, created or aggravated by persons or entities other than Lessee or any subtenant, licensee or other person occupying any portion of the Premises under Lessee.

7.3. ENVIRONMENTAL MATTERS.

7.3.1. Lessor hereby represents and warrants to Lessee, to Lessor's actual knowledge, and without investigation, as follows:

(a) Lessor has duly complied and presently is in compliance with, and the Premises has complied and presently is in compliance with, all applicable Hazardous Materials Laws (as that term hereinafter is defined).

(b) Lessor has received no written notice of, and neither knows of nor suspects, any fact(s) which give rise to violations of any applicable Hazardous Materials Laws.

(c) Lessor has received no written complaint, order, directive, claim, citation, or notice by or from any governmental authority or any person or entity with respect to (i) air emissions affecting or pertaining to the Premises, (ii) Releases of Hazardous Materials from, into, upon, under, above or in the vicinity of the Premises or any improvements located thereon, (iii) noise emissions affecting or pertaining to the Premises, (iv) solid or liquid waste disposal affecting or pertaining to the Premises, (v) the use, generation, storage, transportation, disposal, handling or other management of Hazardous Materials affecting or pertaining to the Premises, or (vi) other environmental, health or safety matters affecting or pertaining to the Premises.

(d) Lessor has provided Lessee with true and complete copies of all written information in Lessor's possession or control pertaining to the environmental history and condition of the Premises.

(e) Lessor's representations and warranties shall survive the termination of this Lease for a period coterminous with the Indemnification Period (as that term is hereinafter defined).

7.3.2. (a) Notwithstanding Section 8.5 of this Lease, upon written claim made during the Indemnification Period, but not after such time (except as to claims made within the Indemnification Period), Lessor agrees to defend, indemnify, and hold harmless Lessee and its affiliates, officers, directors, employees, agents, successors and assigns (collectively, the "Lessee Indemnitees") from and against any and all fines, penalties, costs of investigations, removal actions, remedial actions, cleanups, containments and other response actions, including, without limitation, reasonable attorneys' and consultants' fees, ("Other Environmental Liabilities") arising directly or indirectly from, out of or by reason of (1) any breach of any representation or warranty of Lessor set forth in Section 7.3.1 of this Lease, (2) any breach or default in the performance of any obligation, covenant or condition on Lessor's part to be performed under this Section 7.3, (3) any Releases of Hazardous Materials from, into, upon, above or under the Premises that occurred prior to the effective date of this Lease, or (4) any Releases of Hazardous Materials that occurred at a location other than the Premises and that were or are caused, created or aggravated by a party other than Lessee or Lessee Indemnitees, provided that;

(i) (A) The Other Environmental Liabilities are the result of legally enforceable judicial or administrative actions, directives, orders or judgments arising out of actions or administrative proceedings brought or initiated by any governmental agency or any other person not a party to this Lease, and (B) the Lessee Indemnitees have provided Lessor with timely written notice of such actions, directives, orders or judgments and have allowed Lessor the right, at Lessor's election, to defend against such actions, directives, orders or judgments, or to participate in the defense of Lessee Indemnitees; or

(ii) (A) The Other Environmental Liabilities are the result of a negotiated judicial or administrative consent agreement or decree or are incurred for remedial action necessary to prevent a legally enforceable judicial or administrative obligation (collectively, "Other Cleanup Actions"), and (B) before the Lessee Indemnitees incur such Other Environmental Liabilities, Lessee Indemnitees (1) have provided Lessor with written notice of the need for such Other Cleanup Actions, (2) have allowed Lessor the right at Lessor's election to undertake such Other Cleanup Actions,

or, in the case of a stipulation, consent agreement or decree, allowed Lessor the right, at Lessor's election, to attempt to negotiate or renegotiate the terms of such stipulation, consent agreement or decree, and (3) in the case of remedial action taken by Lessee Indemnitees, in order to prevent Other Environmental Liabilities, obtained Lessor's prior written consent to any such remedial action undertaken by Lessee Indemnitees, which consent shall not be unreasonably withheld.

(b) Lessor shall pay fifty percent (50%) of the first One Hundred Thousand Dollars (\$100,000) of Other Environmental Liabilities, including, without limitation, reasonable attorneys' fees, which Lessor otherwise (but for Sections 7.3.2(b) and 7.3.3(b)) would be obligated to pay in its entirety pursuant to Section 7.3.2(a). Lessor shall be obligated to pay all of the Other Environmental Liabilities that exceed the aggregate amount of One Hundred Thousand Dollars (\$100,000).

(c) Lessor's obligations under this Section 7.3 (including, without limitation, the representations and warranties of Lessor set forth in Section 7.3.1) shall not be binding upon any Lessor Mortgagee or any purchaser of the Premises or any portion thereof following the foreclosure of any first lien deed of trust or mortgage encumbering the Premises or any portion thereof, or the delivery of any deed in lieu of foreclosure thereof to any Lessor Mortgagee, and in any such instance the immediate transferee of the Premises from any Lessor Mortgagee. For purposes of this Section 7.3.2, an "Affiliate of Lessor" shall be any entity controlled by Lessor, controlling Lessor, or under common control with Lessor, provided Lessee shall be given not less than fifteen (15) days prior written notice of such assignment, together with such information as may be necessary to establish that the assignee is an Affiliate of Lessor. For purposes of the preceding sentence, "control" shall mean the ownership of more than fifty percent (50%) of the voting interests in an entity.

7.3.3. (a) Upon written claim made during the Indemnification Period (as hereinafter defined), but not after such time (except as to claims made within the Indemnification Period), Lessee agrees to defend, indemnify, and hold harmless Lessor and its affiliates, officers, directors, employees, agents, successors and assigns (collectively, the "Lessor Indemnitees") from and against any and all fines, penalties, costs of investigations, removal actions, remedial actions, cleanups, containments and other response costs, including without limitation reasonable attorneys' and consultants' fees ("Environmental Liabilities") arising directly or indirectly from, out of or by reason of (1) any breach of representation or warranty of Lessee pursuant to Section 7.3.3(c) of this Lease, (2) any breach or default in the performance of any obligation, covenant or condition on Lessee's part to be performed under this Section 7.3, or (3) the Release of Hazardous Materials from, into, upon, above, or under the Premises that is caused during the term of this Lease directly by (x) use of the Premises by Lessee (or any

subtenant, licensee or other person occupying any portion of the Premises under Lessee), (y) the conduct of Lessee's business (or the conduct of any business by any subtenant, licensee or other person occupying any portion of the Premises under Lessee), or (z) any activity, work or things done or permitted by Lessee (or by any subtenant, licensee or other person occupying any portion of the Premises under Lessee) on or about the Premises, provided that:

(i) (A) The Environmental Liabilities are the result of legally enforceable judicial or administrative actions, directives, orders or judgments arising out of actions or administrative proceedings brought or initiated by any governmental agency or any other person not a party to this Lease and (B) the Lessor Indemnitees have provided Lessee with timely written notice of such actions, directives, orders or judgments and have allowed Lessee the right, at Lessee's election, to defend against such actions, directives, orders or judgments, or to participate in the defense of Lessor Indemnitees; or

(ii) (A) The Environmental Liabilities are the result of a negotiated judicial or administrative consent agreement or decree or are incurred for remedial action necessary to prevent a legally enforceable judicial or administrative obligation (collectively, "Cleanup Actions"), and (B) before the Lessor Indemnitees incur such Environmental Liabilities Lessor Indemnitees (1) have provided Lessee with written notice of the need for such Cleanup Actions, (2) have allowed Lessee the right at Lessee's election to undertake such Cleanup Action or, in the case of a stipulation, consent agreement or decree, allowed Lessee the right, at its own election, to attempt to negotiate or renegotiate the terms of such stipulation, consent agreement or decree, and (3) in the case of remedial action taken by Lessor Indemnitees, in order to prevent Environmental Liabilities, obtained Lessee's prior written consent to any such remedial action undertaken by Lessor Indemnitees, which consent shall not be unreasonably withheld.

(b) Lessee shall pay fifty percent (50%) of the first One Hundred Thousand Dollars (\$100,000) of Other Environmental Liabilities, including, without limitation, reasonable attorneys' fees, which Lessor otherwise (but for Sections 7.3.2(b) and 7.3.3(b)) would be obligated to pay in its entirety pursuant to Section 7.3.2(a). Lessor shall be obligated to pay all of the Other Environmental Liabilities that exceed the aggregate amount of One Hundred Thousand Dollars (\$100,000).

(c) Within ten (10) days after Lessee's vacation of the Premises, Lessee shall deliver to Lessor a writing wherein Lessee represents and warrants that, to the actual knowledge of Lessee's general manager at the Premises, except as otherwise may be provided therein, Lessee has complied in all material respects with all terms and conditions of this Lease, including, without limitation, Lessee's obligations arising from or in connection with Hazardous Materials and Hazardous Materials Laws. Lessee's

representation and warranty hereunder shall survive the termination of this Lease for a period coterminous with the Indemnification Period.

(d) With respect to any underground storage tanks located at, in or on the Premises and installed by the named tenant under this Lease ("Lessee USTs"), upon the earlier of (i) vacation of the Premises by the named tenant under this Lease, or (ii) at the end of the Lease Term, Lessee shall comply with all laws applicable at that time to Lessee USTs, including, without limitation, removal thereof, whether or not required by law; provided, however, if Lessor notifies Lessee within one hundred eighty (180) days after the occurrence of (i) or (ii) above, as applicable (the "Interim Period"), that Lessor does not want the Lessee USTs to be removed, Lessee shall not be required to remove the Lessee USTs; provided, however, during the Interim Period, if any, Lessor shall assume all risks and liabilities arising from or in connection with the Lessee USTs; provided, further, Lessee shall assume all risks and liabilities arising from or in connection with Lessee's removal of the Lessee USTs.

7.3.4. In the event an act, omission or condition causes, creates, or gives rise in part to Environmental Liabilities and in part to other Environmental Liabilities, the respective indemnity obligations of the parties toward one another under Sections 7.3.2 and 7.3.3 of this Lease shall be equitably allocated.

7.3.5. Lessee shall provide to Lessor a copy of any hazardous materials business plans which Lessee is required to establish and implement in accordance with Section 25503.5 of the California Health and Safety Code (or successor statutes). Lessor acknowledges and agrees that submission of such hazardous materials business plan(s) to the Lessor by Lessee shall constitute compliance by Lessee with Section 25503.6 of the California Health and Safety Code. Lessor further acknowledges and agrees that (a) it is not the intent of this Section 7.3.5 to limit in any way the operation of Lessee's business (or the business of any subtenant, licensee or other person occupying any portion of the Premises under Lessee), and (b) notwithstanding the foregoing provisions of this Section 7.3.5, Lessee (or any subtenant, licensee or other person occupying any portion of the Premises under Lessee) may use Hazardous Materials on or at the Premises, including, without limitation, normal quantities of Hazardous Materials that are applicable to general retail or consumer use, so long as the use of such Hazardous Materials by Lessee (or any subtenant, licensee or other person occupying any portion of the Premises under Lessee) is in compliance with all applicable Hazardous Materials Laws and prudent business practices.

7.3.6. All drains from laboratory and manufacturing areas and any drains constructed to contain industrial (non-domestic) waste shall be constructed of nondegradable material

from the point of waste origin to any collection, mixing or treatment system before effluent is released into the cast iron building sanitary system located at the Premises.

7.3.7. Lessor shall provide to Lessee, and Lessee shall provide to Lessor notice within a reasonable period of time of any Release of Hazardous Materials that the notifying party knows or reasonably believes has come or will come to be located on or beneath the Premises.

7.3.8. On or before October 15, 1992 but no later than November 15, 1992 Lessor shall cause the abandonment and closure of any and all monitoring wells located at the Premises, subject to the approval of the governmental agency authorized to issue such abandonment and closure permits (the "Closure Permits"); provided, however, in the event Lessor is unable to obtain the Closure Permits in sufficient time to cause a qualified contractor to complete such abandonment and closure at the contractor's normal rates by November 15, 1992 after diligently and actively attempting to do so, Lessor shall cause such abandonment and closure to be completed as soon as is reasonably practical after obtaining the Closure Permits; provided further, Lessor shall in no event have any obligation to pay the closure contractor overtime rates or incur any other extraordinary costs in fulfilling its obligations under this Section 7.3.8. Lessor shall conduct the activities specified herein in accordance with all applicable federal, state and local laws, codes, statutes, ordinances, and regulations.

7.3.9. (a) Except as provided herein, Lessor, at Lessor's sole risk and expense, shall have the right, at the following times, to enter the Premises and to: (a) conduct any sampling, testing, monitoring and analysis for Hazardous Materials, including soil or water sampling, testing, monitoring, digging and drilling, or structural analysis; (b) with the exception of information that is protected by the attorney-client or work product privileges, or that is proprietary in nature, review any final documents, materials, inventory, notices or correspondence to or from governmental or regulatory authorities in connection with the use of Hazardous Materials by Lessee; and (c) review all storage, use, transportation, and disposal facilities owned or operated by Lessee and associated with the use of Hazardous Materials (collectively, "Inspection"):

(i) once every six months for the first twelve months of the term of this Lease, and once in every subsequent year beginning on the anniversary of the effective date of this Lease, and

(ii) Upon receipt of written notice to Lessee in accordance with Section 22 below and at a time mutually agreed to by Lessor and Lessee, any time during the term of this Lease if, in the Lessor's reasonable judgment, Lessee allegedly has breached its obligations under Section 7.3 of this Lease or an alleged Release

of Hazardous Materials has occurred at the Premises. Lessor shall provide to Lessee in its written notice of Inspection any and all information in Lessor's possession or known to Lessor regarding Lessee's alleged breach of its obligations under Section 7.3 of this Lease or the alleged Release of Hazardous Materials.

(b) Lessee shall reimburse Lessor for the cost of any Inspection undertaken by Lessor pursuant to Section 7.3.9(a) (ii) if the results of such Inspection document that a Release of Hazardous Materials has occurred at the Premises for which Lessee is obliged to indemnify Lessor in accordance with Section 7.3.3 of this Lease.

(c) A representative of Lessee shall be permitted to accompany Lessor during an Inspection. Lessor shall in the course of an Inspection comply with any and all of Lessee's security and safety procedures. Lessor promptly shall make available to Lessee copies of any and all reports, data, analyses, notices, documents or other information reviewed, developed, collected or prepared by Lessor or Lessor's employees, agents, contractors, subcontractors, consultants, or representatives in the course of an Inspection.

7.3.10 Within thirty (30) days after Lessee's vacation of the Premises, Lessor shall cause a qualified environmental consultant approved by Lessee (whose approval shall not be unreasonably withheld, conditioned or delayed) to perform a "Phase I" environmental assessment of the Premises pursuant to a work plan approved by Lessee (whose approval shall not be unreasonably withheld, conditioned or delayed) (the "Termination Inspection"). Lessor and Lessee shall bear equally the cost of the Termination Inspection; provided, however, Lessee's obligation to pay for its share of the cost of the Termination Inspection shall not exceed Ten Thousand Dollars (\$10,000).

7.3.11 (a) The term "Hazardous Materials" as used in this Lease shall include, but not be limited to, substances defined as "hazardous substances" or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sections 9601 et seq., and the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901 et seq.; those substances defined as "hazardous wastes" in Section 25117 of the California Health and Safety Code and in the regulations adopted and promulgated pursuant to said laws; and any other chemical, material or substance at levels for which exposure is prohibited, limited or regulated by any governmental agency,

(b) The term "Hazardous Materials Laws" as used in this Lease shall mean all local, state and federal laws, statutes, ordinances, rules, regulations, orders, covenants and restrictions now or hereafter in effect relating to the environment, Hazardous Materials (including, without limitation, the use, handling, transportation, generation, disposal, Release or storage thereof), or to industrial hygiene or to the environmental conditions on,

under or about the Premises, including, without limitation, soil, groundwater and indoor and ambient air conditions.

(c) The term "Indemnification Period" shall mean the period commencing on the effective date of this Lease and expiring on the first (1st) anniversary of the last day of the term of the Lease and any extensions thereof, as provided for in this Lease.

(d) The term "Release" or "Releases" as used in this Lease shall mean any and all spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment (including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Materials), but shall not include an emission or discharge which is in compliance with all Hazardous Material Laws and permits issued by federal, state and local governmental authorities.

7.4. ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent, except as herein provided, make any alterations, improvements, additions or Utility Installations in, on or about the premises during the term of this Lease. As used in this Lease the term "Utility Installation" shall mean air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, heating, air conditioning and ventilation systems and plumbing. Lessor may condition its consent to the making of any alterations or improvements that will become permanently affixed to the Building (or which would constitute new structures separate from or attached to the Building), other than improvements comprising customary general office and other non-specialized improvements, on Lessee's agreement to remove such alteration or improvement at the expiration or sooner termination of the Lease Term. Notwithstanding anything to the contrary in this Lease, any penetrations of the roof membrane shall only be done with the prior consent of Lessor and only after approval by Lessor of the manner and location of such penetration. Without otherwise limiting the basis on which Lessor may reasonably withhold its consent to the installation of any improvements on the roof of the Building, Lessee agrees that it shall be reasonable for Lessor to withhold its consent thereto if Lessor determines that the installation or operation of any such improvement might damage the structural integrity of the roof or the Building, provided that Lessor proposes an alternative location or manner of installation for the proposed improvement that does not materially impair Lessee's business operations or the utility of the proposed improvement.

(b) Any alterations, improvements, additions in to or about the Premises that Lessee shall desire to make (individually and collectively, "Alterations") shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee

acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner. Notwithstanding the foregoing, Lessor's consent shall not be required for the first \$100,000 of Alterations in any twelve (12) month period (commencing on the date of Lessee's occupancy of the Premises for other than construction purposes (including installation of fixtures, equipment and furnishings)), provided (i) such work does not involve any alteration or change to any of the structural elements of the Building (including the roof and roof membrane), any Building System, the parking facilities at the Premises or any ingress or egress points to the Premises; (ii) such work otherwise complies with the requirements of Section 7.4(c); and (iii) Lessee provides Lessor with final "as-built" plans of such work annually.

(c) All Alterations shall be performed by licensed contractors approved in advance by Lessor. Lessor hereby approves Aaron Management Company as an approved contractor for the alterations and improvements to be constructed by Lessee with the proceeds from The Allowance. Lessee agrees and understands that the review of any plans by Lessor is solely to protect the interests of Lessor in the Building and the Premises, and Lessor shall not be the guarantor of, nor responsible for, the correctness or accuracy of any such plans or compliance of such plans with applicable laws.

(d) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises for which Lessee is required to obtain the prior consent of Lessor, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is in Lessor's best interest to do so.

(e) All Alterations (whether or not the same constitute trade fixtures of Lessee), which may be made on the Premises, shall

be the property of Lessee; provided, however, upon the expiration or sooner termination of this Lease, any and all Alterations, other than trade fixtures and equipment that are removable without damage to any Building Systems or any of the structural elements of the Building, shall remain in place and become the property of Lessor. Subject to the foregoing, Lessee may remove any of its personal property, furniture and equipment from the Building and the Premises upon expiration or sooner termination of this Lease. In addition to the foregoing, unless such condition is waived by Lessor in accordance with Section 7.4(a) hereof, Lessee shall remove any and all structures constructed or installed by Lessee separate from, or as an addition or attachment to, the Building. Lessee shall repair any damage to the Premises occasioned by the removal of any of its fixtures, equipment and personal property at the expiration or sooner termination of this Lease. Notwithstanding anything to the contrary in Section 7.2 or this Section 7.4, any Alterations, equipment, trade fixtures, furnishings or other personal property of Lessee not removed from the Premises within sixty (60) days after the expiration or sooner termination of this Lease shall be deemed abandoned by Lessee, to have no value, and may be disposed of by Lessor as abandoned property in accordance with applicable law.

7.5. LESSOR ADVANCES FOR INITIAL IMPROVEMENTS. Lessor and Lessee acknowledge that the Base Rent provided for under this Lease includes as a component thereof the advance by Lessor to Lessee of the sum of \$2,000,000 (the "Initial Allowance"), for the construction of Alterations approved by Lessor in accordance with Section 7.4 hereof and commenced by Lessee prior to the Scheduled Commencement Date (the "Initial Permitted Expenditures"). Provided no Event of Default shall then exist under this Lease, from and after the Delivery Date, Lessor shall make advances to Lessee of the Initial Allowance upon presentation of invoices from Lessee or the person performing the work or rendering the service and such reasonable supporting documentation as Lessor may request in connection therewith, including conditional mechanics' lien releases. In addition to the Initial Allowance, provided no Event of Default shall then exist under this Lease, Lessor agrees to advance to Lessee, as a loan, after the advance of the full Initial Allowance, an amount up to \$1,603,962 (the "Additional Allowance"), for the construction of Alterations approved by Lessor in accordance with Section 7.4 hereof and commenced by Lessee prior to the first anniversary of the Commencement Date ("Additional Permitted Expenditures"). Advances of the Additional Allowance shall be made in the same manner as advances of the Initial Allowance. If the entire Initial Allowance is not used for Initial Permitted Expenditures, there shall be an appropriate reduction in Base Rent. If the entire Additional Allowance is not used for Additional Permitted Expenditures, the balance shall be retained by Lessor. The Additional Allowance, together with interest thereon accruing from March 1, 1994 at the rate of seven and one-half percent (7.5%) per annum, shall be payable by Lessee in equal monthly installments of principal and interest over the remaining

Lease Term, commencing on March 1, 1994. Each payment of principal and interest hereunder shall be payable at the same time and in the same manner that Base Rent is payable pursuant to Section 4 above. All payments received shall be applied first to accrued interest and the balance shall be applied to principal. The outstanding balance of the Additional Allowance may be prepaid in full or in part at any time without premium or penalty. The repayment of the Additional Allowance by Lessee to Lessor shall not constitute the payment of rent but rather the repayment of a loan; provided, however, that any default in the payment of any sums to be paid by Lessee pursuant to this paragraph shall constitute a default under this Lease, and, in addition to giving rise to the right of acceleration set forth in the next succeeding sentence, shall entitle Lessor to exercise any and all remedies available to Lessor under this Lease, at law or in equity, for nonpayment of rent. The unpaid principal balance and all accrued interest thereon shall be immediately due and payable at the option of Lessor upon any default in the payment of the Additional Allowance as and when due hereunder or upon the occurrence of an Event of Default hereunder, or any termination of, this Lease, together with (to the extent permitted under applicable law) the costs and reasonable attorneys' fees incurred by Lessor in collecting or enforcing payment thereof. Any failure of Lessor to exercise such option to accelerate shall not constitute a waiver of the right to exercise such option to accelerate at any future time. Notwithstanding the foregoing, Lessor and Lessee acknowledge that Lessee shall have no obligation and is hereby relieved of any obligation to repay the Additional Allowance in the event the Lease is terminated as the result of any damage or destruction of the Premises, as provided in Article 9, or condemnation of the Premises, as provided in Article 14.

8. INSURANCE; INDEMNITY.

8.1. INSURANCE - LESSEE. Lessee shall, at its sole cost and expense, obtain and keep in full force and effect from and after the Delivery Date a Commercial General Liability policy of insurance protecting Lessee and Lessor (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence and providing for not less than \$6,500,000 in umbrella/excess liability coverage, and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations (other than the Lessee's indemnity obligations under Section 7.3) under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder.

All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

8.2. INSURANCE - LESSOR.

8.2.1 From and after the Delivery Date, Lessor shall keep the Building and all Leasehold Improvements (as defined below) insured against all perils covered by a standard all risk insurance policy or policies as such policies are in use as of the date of this Lease (excluding perils such as earthquake, flood and other standard all-risk policy form exclusions), in an amount or amounts equal to the full replacement value of the Building (excluding the land and the footings, foundations and installations below the basement level) and the Leasehold Improvements (provided, however, if by reason of the unique nature of any of the Leasehold Improvements full replacement coverage is not commercially reasonable and available, then Lessor shall only be obligated to insure such unique Leasehold Improvements to the commercially reasonable and available insurable value thereof), without deduction for depreciation, including the costs of demolition and debris removal, or such other fire and property damage insurance as Lessor shall reasonably determine to give substantially equal or greater protection, together with endorsements for increased cost of construction and contingent liability (commonly known as building ordinance coverage). The replacement value of the Building and the Leasehold Improvements shall be redetermined by Lessor no less frequently than once every two (2) years. For purposes of this Section 8.2, "Leasehold Improvements" shall mean the improvements and betterments made in or to the Building existing as of the date of this Lease or later installed by Lessee, including any Building systems, the landscaping, parking facilities, fencing and exterior lighting facilities. Leasehold Improvements shall exclude any and all of Lessee's trade fixtures not permanently affixed to the Premises, equipment or moveable personal property. Lessee shall be named as a "loss payee" on Lessor's property insurance policy, as its interest may appear.

8.2.2 Lessee shall have the right, upon written notice to, and approval by Lessor (including approval of any Lessor Mortgagee), which approval shall not be unreasonably withheld, to assume the obligations of Lessor in Section 8.2.1, with such policy being issued in the name of Lessor, and with loss payable to Lessor and Lessee as provided in Section 8.2.1 hereof.

8.3. GENERAL INSURANCE MATTERS.

8.3.1 The amounts of coverage called for in this Section 8.1 shall be subject to review by Lessor and Lessee each year, and shall be adjusted as appropriate to provide that the amounts of coverages shall be not less than the amounts of coverage carried by prudent owners, operators and lessees of first-class industrial/office space buildings comparable to the Building and

located in the Fremont area. For purposes of reviewing coverages to be carried by Lessee, the amounts of coverage required will be compared with coverages maintained by other lessees similar to Lessee with respect to the size and nature of its business operation.

8.3.2 Insurance required hereunder shall be in companies acceptable to Lessor and holding a "General Policyholders Rating" of at least B+/VII, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide". Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor certificates of insurance or certificates evidencing the existence and amounts of the insurance required by Section 8.1 hereof prior to Lessee's occupancy of the Premises. No such policy shall be cancelable or subject to modification except upon thirty (30) days prior written notice to Lessor.

8.4. WAIVER OF SUBROGATION. Each of Lessor's and Lessee's policies of insurance obtained for the Premises shall include a clause or endorsement denying the insurer any right of subrogation against the other to the extent that rights have been waived by the insured party prior to the occurrence of injury or loss. Lessor and Lessee each waive any rights of recovery against the other for injury or loss due to hazards covered by its own insurance, to the extent of the injury or loss covered thereby.

8.5. INDEMNITY. Subject to Section 7.3 of this Lease (which shall control in the event of any conflict with the provisions of this Section), Lessee shall indemnify, defend and hold harmless Lessor, its employees, agents and representatives, from and against any and all claims arising, directly or indirectly, from Lessee's use of the Premises, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify, defend and hold harmless Lessor, its employees, agents and representatives, from and against any and all claims arising, directly or indirectly, from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising, directly or indirectly, from any act or omission of Lessee or any of Lessee's agents, contractors or employees, howsoever occurring, and from and against all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon except to the extent the same results from the negligence or willful misconduct of Lessor, its employees, agents and representatives; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Notwithstanding anything to the contrary herein, Lessee shall not be responsible for any consequential

damages (including, without limitation, lost profits or business opportunities) resulting from the acts or omissions of Lessee, its agents, contractors or employees. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Premises arising from any cause, except as provided in Sections 7.1.4, 7.3 and 8.6.2, and, subject to the foregoing, Lessee hereby waives all claims in respect thereof against Lessor, its employees, agents and representatives.

8.6. EXEMPTION FROM LIABILITY.

8.6.1 Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or, subject to Section 7.1.4 of this Lease, for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers or any other person in or about the Premises, nor, subject to Section 7.1.4 of this Lease, shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, howsoever occurring (including, without limitation, as a result of any Release or other cause described in Section 7.3 hereof), whether said damage or injury results from conditions arising upon the Premises or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee.

8.6.2 Lessor hereby agrees that, subject to Section 13.2 of this Lease and the remedies permitted Lessor thereunder, Lessee shall not be liable for injury to Lessor's business or any loss of income therefrom or, subject to Section 8.5 of this Lease, for damage to the goods, wares, merchandise or other property of Lessor, or Lessor's employees, invitees, any other person in or about the Premises, nor, subject to Section 8.5 of this Lease, shall Lessee be liable for injury to the person of Lessor, Lessor's employees, agents or contractors, howsoever such damage or injury occurs (including, without limitation, as a result of any Release or other cause described in Section 7.3 hereof), whether said damage or injury results from conditions arising upon the Premises or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessor. For purposes of the preceding sentence, to the extent Lessee is responsible to Lessor for damage or injury to person or property based on Section 8.5 of this Lease, such liability shall, to the extent applicable, be limited by the terms of Section 7.3 of this Lease in all respects and Section 7.3 shall control as to the scope of Lessee's liability to Lessor with respect to matters provided therein.

9. DAMAGE OR DESTRUCTION.

9.1. DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent (50%) of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent (50%) or more of the then replacement cost of the Premises.

(c) "Insured Loss" shall mean damage or destruction which was covered by an event covered by the insurance required to be obtained by Lessor under this Lease. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(d) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring, including demolition, debris removal and upgrading required by operation of applicable building codes, ordinances, or laws, without deduction for depreciation.

9.2. PREMISES PARTIAL DAMAGE.

(a) Subject to the provisions of Sections 9.4 and 9.5, if at any time during the term of this Lease there is damage, which is an Insured Loss and which falls within the classification of Premises Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, excluding any property of Lessee that is not included within the term Leasehold Improvements, as soon as reasonably possible after Lessor's receipt of substantially all of the insurance proceeds therefor, and this Lease shall continue in full force and effect. Lessor and Lessee shall cooperate to obtain insurance proceeds as promptly as possible following the occurrence of an Insured Loss. If, by reason of the unique nature of any of the Leasehold Improvements, full replacement cost insurance coverage was not commercially reasonable and available for any Leasehold Improvements, Lessor shall have no obligation to fully restore any unique aspects of the Leasehold Improvements unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) days period, Lessor shall complete the restoration of such Leasehold Improvements as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless proceed to make such restoration and repair as is commercially reasonable, taking into account available

insurance proceeds, in which case this Lease shall remain in full force and effect. Premises Partial Damage due to flood or earthquake shall be subject to Section 9.3 rather than this Section 9.2, notwithstanding that there may be some insurance coverage but the net proceeds of any such insurance shall be made available for the repairs if made by Lessor.

(b) Subject to the provisions of Sections 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense, subject to Section 7.4 above and other reasonable conditions imposed by Lessor, or, at Lessor's option, Lessor shall repair the same at Lessee's expense), Lessor may, at Lessor's option either (i) repair such damage (excluding any property of Lessee that is not included within the term Leasehold Improvements) as soon as reasonably possible at Lessor's expense (subject to the provisions of Section 9.2 hereof regarding the repair of unique Leasehold Improvements for which full replacement coverage is not available), in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within sixty (60) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage.

(c) If at any time during the term of this Lease there is a casualty, whether or not an Insured Loss, that falls within the classification of Premises Partial Damage, and Lessor does not elect to terminate this Lease pursuant to Section 9.2(b) above, Lessor shall, within sixty (60) days of such casualty, provide Lessee with a written estimate of the time required to rebuild and restore the Premises. Notwithstanding anything to the contrary in this Section 9.2, if the time which would be required to rebuild and restore the Premises is more than the first to occur of (i) six (6) months following the issuance of all necessary building permits, or (ii) one year from the date of such casualty, Lessee shall have the right, within thirty (30) days of Lessor's notice, to terminate this Lease effective as of the date of such notice; provided, if Lessee does not timely elect to terminate this Lease in accordance with this sentence, the rights and obligations of Lessor and Lessee shall be determined in accordance with this Section 9.2 without application of this paragraph.

9.3. PREMISES TOTAL DESTRUCTION. (a) If at any time during the Lease Term there is damage, whether or not it is an Insured Loss, and which falls into the classification of Premises Total Destruction, Lessor may, at Lessor's option either (i) repair such damage or destruction (excluding any property of Lessee that is not included within the term Leasehold Improvements) as soon as reasonably possible (after Lessor's receipt of substantially all of the insurance proceeds therefor, if any; Lessor and Lessee agreeing to cooperate to obtain such insurance proceeds as promptly as

possible following the occurrence of an Insured Loss) at Lessor's expense (subject to the provisions of Section 9.2 hereof regarding the repair of unique Leasehold Improvements for which full replacement coverage is not available), and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within sixty (60) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of occurrence of such damage.

(b) If at any time during the term of this Lease there is a casualty, whether or not an Insured Loss, that falls within the classification of Premises Total Damage, and Lessor does not elect to terminate this Lease pursuant to Section 9.3(a) above, Lessor shall, within sixty (60) days of such casualty, provide Lessee with a written estimate of the time required to rebuild and restore the Premises. Notwithstanding anything to the contrary in this Section 9.3, if the time which would be required to rebuild and restore the Premises is more than the first to occur of (i) six (6) months following the issuance of all necessary building permits, or (ii) one year from the date of such casualty, Lessee shall have the right, within thirty (30) days of Lessor's notice, to terminate this Lease effective as of the date of such notice; provided, if Lessee does not timely elect to terminate this Lease in accordance with this sentence, the rights and obligations of Lessor and Lessee shall be determined in accordance with this Section 9.3 without application of this paragraph.

(c) Notwithstanding anything to the contrary in Section 9.2 or this Section 9.3, if Lessor elects, following a casualty which falls within the classification of Premises Partial Damage or Premises Total Damage, to terminate this Lease, Lessee shall have the right, by written notice to Lessee within ten (10) days after the receipt of Lessor's notice terminating this Lease, to assume the cost of reconstruction and repair of the Premises and, subject to the rights of any Lessor's Mortgagee, receive an assignment of any property insurance proceeds otherwise received by Lessor, and this Lease shall not terminate; provided, however, that in such an event any abatement of rent to which Lessee shall otherwise be entitled shall cease six (6) months after the date of the casualty and shall be due and payable as otherwise provided in this Lease.

9.4. DAMAGE NEAR END OF TERM.

(a) Subject to Section 9.4(b), if at any time during the last two (2) years of the Lease Term there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within sixty (60) days after the date of occurrence of such damage.

(b) Notwithstanding Section 9.4 (a), in the event that Lessee has an option to extend this Lease, and the time within which said option may be exercised has not yet expired, Lessee may exercise such option, if it is to be exercised at all, no later than ten (10) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last two (2) years of the Lease Term. If Lessee duly exercises such option during said 10-day period, Lessor shall, at Lessor's expense, subject to Section 9.2(a) above, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said 10-day period, Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said 10-day period by giving written notice to Lessee.

9.5. ABATEMENT OF RENT; LESSEE'S REMEDIES. In the event Lessor repairs or restores the Premises pursuant to the provisions of this Section 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

9.6. TERMINATION - ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Section 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. In addition, Lessor shall, if required, return to Lessee the Security Deposit, if any, pursuant to Section 5 above.

9.7. WAIVER. Lessor and Lessee waive California Civil Code Sections 1932(2) and 1933(4) providing for the termination of a lease upon the destruction of the thing hired.

9.8. ADJUSTMENT OF CLAIMS. In order to provide guidance to Lessor's property insurance carrier as to the adjustment of any claim under Lessor's property insurance policy following a casualty which results in a termination of this Lease, the parties agree that Lessee's interest in the Leasehold Improvements shall equal the depreciated value of any Leasehold Improvements paid for by Lessee (and specifically excluding the value of any Leasehold Improvements paid for by Lessor's disbursement of the Allowance) and that Lessee has no insurable interest in the structural elements, Building Systems, Utility Installations and foundation of the Building, and any parking facilities and landscaping at the Premises.

10. PERSONAL PROPERTY TAXES.

Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or

elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property, and Lessee shall have the right to protest such taxes in accordance with, and subject to the terms of, Section 4.5 of this Lease.

11. UTILITIES.

Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon.

12. ASSIGNMENT AND SUBLETTING.

12.1. LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law, assign, transfer, mortgage, sublet or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. For purposes of this Section 12.1, a corporate dissolution, or any merger, consolidation or other reorganization of Lessee where Lessee is not the surviving corporation shall constitute an assignment of this Lease; provided, however, for so long as Lessee is a corporation the voting stock of which is publicly traded on a national stock exchange, the consent of Lessor shall not be required in connection with any such merger, consolidation or other reorganization where the surviving corporation has a net worth that is at least equal to the net worth of Lessee immediately prior to the transaction. Any of the foregoing acts without the prior written consent of Landlord shall be void and shall, at the option of Lessor, constitute an Event of Default under this Lease that entitles Lessor to terminate this Lease. Lessor agrees that the withholding of consent by Lessor shall be deemed reasonable unless all of the following conditions are satisfied:

(i) The proposed assignee or subtenant shall use the Premises only for the Permitted Use or such other use reasonably acceptable to Lessor.

(ii) The proposed assignee or subtenant is reputable and has a net worth and a credit rating reasonably acceptable to Lessor, and otherwise has sufficient financial capabilities to perform all of its obligations under this Lease or the proposed sublease, in Lessor's reasonable judgment.

(iii) Lessee is not in default and has not committed acts or omissions which with the running of time or the giving of notice

or both would constitute a default under this Lease.

(iv) All of the other terms of this Section 12 are complied with.

The conditions described above are not exclusive and shall not limit or prevent Lessor from considering additional factors in determining if it should reasonably withhold its consent. Lessor shall either consent or withhold consent to Lessee's request for consent hereunder within ten (10) business days after Lessor's receipt of information reasonably requested by Lessor concerning such transfer (including, without limitation, financial statements of a proposed transferee), and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease. The failure of Lessor to give its consent within said ten (10) business day period shall be deemed a denial of such consent (provided, however, that such deemed denial shall not, in and of itself, be considered an unreasonable act of Lessor). Notwithstanding the foregoing, Lessor's consent shall not be required for any assignment or sublease to any Affiliate of Lessee. For purposes of this Lease, an "Affiliate of Lessee" shall be any entity controlled by Lessee, or under common control with Lessee, provided Lessor shall be given not less than fifteen (15) days prior written notice of such assignment or sublease, together with such information as may be necessary to establish that the assignee or sublessee is an Affiliate of Lessee. For purposes of this Lease, "control" shall mean owning more than a fifty percent (50%) ownership interest in an entity.

12.2. TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment to an Affiliate of Lessee shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. In the case of an assignment of all of the right, title and interest of Lessee under this Lease consented to by Lessor, other than as hereinabove provided, Lessor shall release Lessee from any liability accruing under this Lease from and after the date of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this Section 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of a default by any assignee of Lessee or any successor of Lessee in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee or successor. In the case of any assignment of this Lease where Lessee is not released prospectively from its obligations hereunder, Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of

Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease; provided, however, that Lessee shall have no liability under this Lease as to any obligations subject to such modification or amendment unless such modification or amendment has been consented to by Lessor. In addition, any assignment of this Lease shall be null unless the assignee assumes all of Lessee's obligations under this Lease and agrees to be bound by the terms of this Lease. Lessor shall be entitled to fifty percent (50%) of any Bonus Rent (as hereinafter defined) resulting from any assignment.

12.3. TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Event of Default shall occur under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease, except as provided below. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor. All subleases shall be subject and subordinate to this Lease, and Lessor shall be entitled to fifty percent (50%) of any Bonus Rent.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. Once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to comply with each and every obligations herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(d) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or a consent to any subsequent sublettings and assignments of the sublease or any amendments or modifications thereto.

(e) Following any Event of any Default under this Lease, Lessor may proceed directly against Lessee, or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(f) Following any Event of Default under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(g) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor, which consent shall not be unreasonably withheld or delayed.

(h) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(i) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgment that no default by Lessee then exists under this Lease nor shall such consent be deemed a waiver of any then existing default. Lessor shall, if requested by Lessee, certify to any assignee or sublessee as to the existence of any defaults of Lessee under this Lease then known to Lessor.

12.4. BONUS RENT. For purposes of this Lease, "Bonus Rent" shall mean any and all rent or other consideration, whether denominated rent or otherwise, realized by Lessee under any assignment or sublease (pro rated to reflect the rent allocable to the portion of the Building subject to such assignment or sublease) in excess of (i) Base Rent, (ii) Operating Expenses, (iii) monthly rent payment of the Allowance as provided in Section 7.5, (iv) reasonable attorneys' fees and leasing commissions incurred by Lessee in connection with such assignment or sublease, amortized over the term of the assignment or sublease, and (v) the unamortized cost of capital improvements installed in the Premises by Lessee and not removed

12.5. ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees, not to exceed one thousand dollars (\$1,000) incurred in connection therewith.

12.6. REMEDY. Notwithstanding anything to the contrary in this Lease, if Lessee or any proposed transferee of Lessee claims that Lessor has unreasonably withheld its consent under this Section 12.1, their sole remedy shall be to make a written demand on Lessor and to require Lessor to submit the issue of whether Lessor has acted reasonably or unreasonably to arbitration in accordance with the following procedure:

(i) Within five (5) business days after Lessor's receipt of Lessee's demand, Lessor and Lessee shall attempt in good faith to mutually appoint a real estate attorney who shall have been active over the ten (10) year period ending on the date of such appointment in the leasing of commercial/industrial properties in the San Francisco/East Bay area. If the parties are unable to agree, Lessor and Lessee shall each appoint a real estate attorney, so qualified, by written notice to the other party within five (5) business days after expiration of said five (5) business day period. Within ten (10) business days after selection of the second real estate attorney, the two real estate attorneys appointed by the parties shall mutually appoint a third real estate attorney, with the same qualifications, who shall not have previously acted as counsel to Lessor or Lessee. If either Lessor or Lessee fails to appoint a real estate attorney within the time period specified, the real estate attorney appointed by one of them shall be the arbiter of the dispute as hereinafter provided.

(ii) Within thirty (30) days after appointment of the real estate attorney mutually appointed by the parties or selection of the third real estate attorney (either of such attorneys hereinafter being referred to as the "arbiter"), the arbiter shall determine whether Lessor has acted reasonably or unreasonably. The parties shall have the right to submit (and by his or her appointment the arbiter shall agree to consider such written material as may be submitted) to the arbiter, and if requested by the arbiter, to make oral arguments or presentations, as necessary; provided, however, Lessor and Lessee agree to limit any written material submitted to the arbiter to fifteen (15) pages (double spaced) per party and to limit oral argument to one hour per party. The sole issue to be submitted to the arbiter for resolution is whether, under the circumstances, Lessor has acted reasonably or unreasonably under, and taking into account the terms of, this Article 12 in withholding its consent to a requested assignment or subletting. The decision of the arbiter shall be final and binding on the parties and no monetary damages or other relief shall be ordered or determined by the arbiter. Each party shall bear its own cost in connection with submittal of the issue

to the arbiter and the non-prevailing party shall pay the expenses and fees of the arbiter. Except as hereinabove provided, Lessee waives all other remedies, including, without limitation, any right to monetary damages, by reason of Lessor's delay or withholding of any consent under Section 12.1 hereof.

13. DEFAULT; REMEDIES.

13.1. DEFAULT. The occurrence of any one or more of the following events shall constitute a material default (hereinafter an "Event of Default") of this Lease by Lessee:

(a) The abandonment of the Premises.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraphs (b), (d), (e) and (f) herein, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1 (d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) A sale, conveyance, mortgage, pledge, assignment, sublease or other transfer or encumbrance, or any attempt to do so, in violation of Section 12.

(f) Lessee's failure to deliver the estoppel certificate required under Section 15, or any written instrument required under Section 29.

13.2. REMEDIES. In the event of any such default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall be entitled to its rights and remedies under Civil Code Section 1951.2 to recover from Lessee all damages incurred by Lessor or Lessor's Affiliates by reason of Lessee's default, including but not limited to: (i) the worth at the time of the award of the unpaid Base Rent and additional rent which had been earned or was payable at the time of termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent and additional rent which would have been earned or payable after termination until the time of the award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent and additional rent which would have been paid for the balance of the term after the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all damages incurred by Lessor proximately caused by Lessee's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses incurred by Lessor in maintaining or preserving the Premises, after such default, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation or alteration of the Premises, Lessor's attorneys' fees and costs incurred in connection therewith, and any real estate commissions paid or payable. As used in subparts (i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the Interest Rate or such lesser amount as may then be the maximum lawful rate. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Lessee abandons the Premises, Lessor shall have the option of (x) taking possession of the Premises and recovering from Lessee the amount specified in this subparagraph, or (y) proceeding under the provisions of subparagraph (b) below.

(b) Maintain Lessee's right to possession, in which case this Lease shall continue in effect whether or not Lessee shall

have abandoned the Premises. In such event Lessor may enforce all of its rights and remedies under this Lease, including (but without limitation) the right to recover rent as it becomes due, and Lessor, without terminating this Lease, may exercise all of the rights and remedies of a Lessor under California Civil Code Section 1951.4 or any successor code section. Acts of maintenance, preservation or efforts to lease the Premises or the appointment of receiver upon application of Lessor to protect Lessor's interest under this Lease shall not constitute an election to terminate Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

13.3. LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Operating Expenses or other sums due hereunder will cause Lessor 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, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises, or any portion thereof. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be postmarked for proper delivery to Lessor or otherwise delivered to an overnight courier service for proper delivery to Lessor within ten (10) days following the date such rent payment or other charge is otherwise due under this Lease, then, without any requirement for any additional notice to Lessee, Lessee shall pay to Lessor a late charge equal to five percent (5%) of such overdue amount. Notwithstanding the foregoing, Tenant shall be allowed two (2) late payments during each calendar year of the Lease Term without being assessed a late charge, provided such payment is not overdue more than twenty (20) days in each instance. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

14. CONDEMNATION.

If the Premises or any portion thereof is taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "Condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If the portion of the Premises taken by condemnation materially and detrimentally affects Lessee's use of the Premises, then either party may, at its option, to be exercised in writing within ten (10) days after the condemning authority shall have

taken title or possession, whichever is first, terminate this Lease as of the date the condemning authority takes such possession or title. If neither party terminates this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Building, if any, taken bears to the total floor area of the Building. No reduction of rent shall occur if the only area taken is that which does not have the Building located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in the value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property.

15. ESTOPPEL CERTIFICATE.

(a) Lessee shall from time to time, within ten (10) business days after written notice from Lessor, execute, acknowledge and deliver to Lessor a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not any uncured defaults on the part of the Lessor, or specifying such defaults if any are claimed, and (iii) certifying the commencement date and expiration date of the Lease Term and that there are no agreements with Lessor to extend or renew the Lease Term or permit any holding over (or if there are any such agreements, describes them with particularity); and (iv) setting forth such other information concerning this Lease or Lessee as Lessor or any other person designated by Lessor reasonably shall request. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or the business of Lessor.

(b) At Lessor's option, the failure to deliver such statement within such time shall be a material default of this Lease by Lessee, without any further notice to Lessee, and such failure shall be conclusive upon Lessee that (i) this Lease is in full force and effect, without modification except as may be represented by Lessor, (ii) there are no uncured defaults in Lessor's performance, (iii) not more than one month's rent has been paid in advance, if any, and (iv) the commencement date and expiration date of this Lease is as represented by Lessor and there are no options herein except as represented by Lessor.

(c) If Lessor desires to finance, refinance or sell the Premises, or any part thereof, Lessee hereby agrees to deliver to

any lender or purchaser designated by Lessor such publicly available financial statements and other information of Lessee as may be reasonably required by such lender or purchaser.

16. LESSOR'S LIABILITY.

16.1 LIMITATION ON LESSOR LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interests in a ground lease of the Premises, and, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor), subject to Section 16.2 hereof, shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that the transferee agrees to assume all such liability of Lessor under this Lease. Any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

16.2. LESSOR LIABILITY FOR ENVIRONMENTAL CONDITIONS.

16.2.1 Notwithstanding anything to the contrary in Section 16.1 of this Lease, subject to Section 16.2.2 hereof, Lessor (including, without limitation, any successor in interest or assignee of the named Lessor under this Lease) shall not be released from its indemnification obligations under Section 7.3.2 hereof upon any sale or transfer of its interest in the Premises unless, in Lessee's reasonable judgment, the transferee or grantee of the Premises is reputable, and has a net worth, credit rating and ability to maintain sufficient financial resources to satisfy Lessor's Indemnification Costs (as that term is hereinafter defined) for the remainder of the initial Lease Term, and is able to demonstrate to the reasonable satisfaction of Lessee that in the course of its business it will maintain sufficient financial resources to satisfy Lessor's Indemnification Costs for the remainder of the initial Lease Term (provided, however, that the foregoing demonstration shall not necessarily imply any obligation of the transferee to post any security for the satisfaction of Lessor's Indemnification Costs). Lessee's determination of the adequacy of the creditworthiness and financial capability to perform of any transferee of Lessor shall be based on a reasonable evaluation of the following: (A) potential and existing environmental conditions in the area within a one and one-half mile radius of the Premises (the "Immediate Vicinity"), including, without limitation, (i) Releases or potential Releases of Hazardous Materials to soils and/or groundwater within the Immediate Vicinity, (ii) the type and activities of businesses operating within the Immediate Vicinity, such as (without limitation) industrial manufacturing facilities at which Hazardous Materials are used, stored, treated and/or generated, gasoline stations or

semiconductor manufacturing facilities, (iii) the presence and type of groundwater monitoring wells within the Immediate Vicinity and the analytical results of groundwater samples taken from such wells. (to the extent such information is available), and (iv) the presence and type of Hazardous Materials Release or potential Release sites within the area, such as (without limitation) sites listed on the EPA CERCLIS list (hereafter "Environmental Conditions"); (B) the estimated cost to perform Lessor's obligations set forth in Section 7.3.2 arising or potentially arising from or in connection with the Environmental Conditions; and (C) the actual, if any, or estimated cost to Lessor to perform Lessor's obligations set forth in Section 7.3.2 with respect to the Other Environmental Liabilities at the time of such transfer (collectively, the estimated and actual, if any, cost under clauses (B) and (C) above is referred to as the "Lessor's Indemnification Costs"); provided, however, at the time of the transfer, Lessor's Indemnification Costs shall in no event be deemed, for the sole purpose of evaluating the creditworthiness and financial capability to perform of any transferee of Lessor pursuant to this Section 16.2.1, to be less than Two Million Dollars (\$2,000,000). Lessee shall either approve or disapprove of the creditworthiness and financial capability to perform of any transferee of Lessor within thirty (30) days after Lessor's request for such approval and the receipt by Lessee of any financial information regarding the transferee as reasonably requested by Lessee; provided, however, Lessee shall notify Lessor of the documentation needed by Lessee in order to consider the creditworthiness and financial capability to perform of any transferee and of such transferee's commitment to maintain sufficient financial resources within ten (10) business days of Lessor's request for such approval. The failure of Lessee to give its approval within said thirty (30) day period shall be deemed a disapproval (provided, however, that such deemed disapproval shall not, in and of itself, be considered an unreasonable act of Lessee). If Lessee disapproves of the creditworthiness and financial capability to perform of any transferee of Lessor, Lessor shall have the right, as its sole and exclusive remedy, to require Lessee to submit the disagreement to arbitration in accordance with the procedure provided in Rider 2 of this Lease and the decision of such arbitration shall be final and binding on the parties.

16.2.2 Nothing contained in this Section 16.2 shall be deemed to prevent or impair any sale or transfer by Lessor of its right, title and interest in the Premises or otherwise provide Lessee with any right to disapprove of any transferee of Lessor under this Lease. The provisions of the Section 16.2 are intended solely as a limitation on the release of Lessor from any indemnification obligations under Section 7.3.2 of this Lease, whether accruing prior to or after any such sale or transfer. The provisions of this Section 16.2 are personal to the named tenant under this Lease and shall not inure to the benefit of any assignee, subtenant or successor in interest (other than an Affiliate of Lessee) of the named Lessee under this Lease, it being

the intent of the parties that the provisions of this Section 16.2 shall be null and void following any assignment (whether voluntary or involuntary) of this Lease by the named Lessee hereunder. In addition to the foregoing, the provisions of this Section 16.2 shall be null and void during any Option Period, it being the intent of the parties that the provisions of this Section 16.2 shall only be binding on the parties during the initial Lease Term and that, regardless of whether Lessor has previously sold or transferred its right, title and interest in the Premises without being released from its obligations under Section 7.3.2, from and after the commencement of the Option Period, subject to Section 16.1 of this Lease, Lessor shall be released from its obligations under Section 7.3.2 as to any claims, demands, losses or other matters made or occurring after the expiration of the initial Lease Term.

17. SEVERABILITY.

The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

18. INTEREST ON PAST-DUE OBLIGATIONS.

Except as expressly herein provided, any amount due to Lessor not paid within thirty (30) days of the date due shall bear interest at the then existing "reference rate" as announced by Bank of America NT&SA, or any successor thereto, plus one percent (1%). Such rate is herein referred to as the "Interest Rate". Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred

19. TIME OF ESSENCE.

Time is of the essence with respect to Lessee's obligations to be performed under this Lease.

20. ADDITIONAL RENT.

All monetary obligations of Lessee to Lessor under the terms of this Lease, including, but not limited to, Operating Expenses and insurance and tax expenses payable, shall be deemed to be rent.

21. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS.

This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

22. NOTICES.

Any notice, demand, consent or request required or permitted to be given hereunder shall be in writing and shall be given by personal delivery, certified mail, return receipt requested, or sent by overnight courier, postage prepaid, in each case addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices, demands, consents or requests required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee. Notices, demands, consents or requests shall be deemed given when received or, if delivery is refused or delivery fails because of a changed address of which no notice was given, at the time delivery first was tendered.

23. WAIVERS.

No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

24. RECORDING.

Lessee shall not record this Lease or a short form memorandum thereof.

25. HOLDING OVER.

If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy. If Lessee holds over in possession of the Premises without Lessor's consent, then, in addition to any other rights and remedies at law or in equity, Lessee shall pay to Lessor during such hold over one and one-half (1-1/2) times the Base Rent in effect immediately prior to such holdover in addition to all other rent hereunder, and Lessee shall indemnify Lessor, its employees, agents and representatives from and against all claims, demands, costs and liabilities as a result of or in connection with

such holdover.

26. CUMULATIVE REMEDIES.

No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

27. COVENANTS AND CONDITIONS.

Each provision of this Lease performable by Lessee and Lessor shall be deemed both a covenant and a condition.

28. BINDING EFFECT; CHOICE OF LAW.

Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of Section 16, this Lease shall bind the parties, successors and assigns. This Lease shall be governed by the laws of the State of California and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which Premises is located.

29. SUBORDINATION/MORTGAGEE RIGHT TO CURE.

29.1 SUBORDINATION.

(a) Lessor represents that as of the date of this Lease, there is no ground lease, mortgage, deed of trust, or any other hypothecation or security interest granted by Lessor encumbering the Premises.

(b) In the event any ground lease, mortgage, deed of trust or any other hypothecation or security encumbering the Premises is foreclosed or a deed in lieu of foreclosure is given to the mortgagee or beneficiary, or in the event any ground lease to which this Lease is subordinate is terminated, this Lease shall not be barred, terminated, cut off or foreclosed nor shall the rights and possession of Lessee hereunder be disturbed if Lessee shall not be in default in the payment of rent and other sums due hereunder or otherwise be in default under the terms of this Lease. Lessee agrees to subordinate its leasehold estate to the lien of one or more ground leases, deeds of trusts or mortgages hereafter encumbering the Premises at any time, provided that Lessor obtains the agreement of any such ground Lessor, holder of any mortgage or beneficiary under any deed of trust encumbering the Premises or any portion thereof (any such person, whether as to any existing or future lease, mortgage or deed of trust, as the case may be being referred to in this Lease as a "Lessor's Mortgagee") to the provisions of this Section 29.1 by the execution of a nondisturbance agreement in form and substance as is used by such Lessor's Mortgagee. Lessee shall attorn to any Lessor's Mortgagee if Lessor's Mortgagee succeeds to the interest of Lessor under this Lease, and Lessee shall recognize such person as Lessor under this

Lease.

29.2. MORTGAGEE RIGHT TO CURE. No act or omission by Lessor which would entitle Lessee under the terms of this Lease or any applicable laws to be relieved of Lessee's obligations hereunder, or to terminate this Lease, shall result in a release or termination of such obligations or this Lease unless: (a) Lessee first shall have given written notice of Lessor's act or omission to Lessor and all Lessor's Mortgagees whose names and addresses shall have been furnished to Lessee; and (b) Lessor's Mortgagees, after receipt of such notice, fail to correct or cure the act or omission within a reasonable time thereafter (but in no event less than sixty (60) days). However, nothing contained in this Section shall impose any obligation on Lessor's Mortgagees to correct or cure any act or omission. If Lessor's Mortgagee does not elect to correct or cure any act or omission of Lessor within the time period provided above, Lessee shall have the right to pursue its remedies under this Lease or under applicable law.

30. ATTORNEYS' FEES.

If either party brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to its reasonable attorneys' fees to be paid by the losing party as fixed by the court.

31. LESSOR'S ACCESS.

31.1. GENERAL RIGHT OF ENTRY. Subject to, and except as otherwise limited by, Section 7.3 hereof, Lessor and Lessor's agents shall have the right to enter the Premises at any time for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or, during the last twelve (12) months of the Lease Term, lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary and reasonable "For Sale" signs. All activities of Lessor pursuant to this Section 31.1 shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

31.2. GENERAL CONDUCT OF LESSOR. Except for entry to the Premises in the event of an emergency, or as otherwise provided in this Section 31.2, Lessor shall give Lessee reasonable advance notice of Lessor's intent to enter the Premises, and shall, as a general matter, limit its entry to the Premises to normal business hours. Lessor's employees (including, without limitation, Lessor's agents and contractors) entering the Premises shall be prepared to provide proper identification and non-Lessor employees shall, upon request of Lessee, be accompanied by an employee of Lessee at all times while in the Premises. Lessee acknowledges that Lessor's need to make repairs, improvements, alterations or additions to the

Building may require Lessor to enter the Premises and perform work therein outside of normal business hours. Lessor shall give Lessee reasonable advance notice of Lessor's intent to enter the Premises for such purpose (except for emergency repairs, where only reasonable advance notice under the circumstances shall be required) and shall cooperate with Lessee to preserve the security and confidentiality of Lessee's business operations.

32. AUCTIONS.

Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

33. SIGNS.

Lessee shall not place any sign upon the Premises without Lessor's prior written consent, and then only in compliance with all applicable laws, ordinances and covenants and restrictions of record.

34. MERGER.

The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

35. CONSENTS. Whenever Lessor's consent or approval is required hereunder, Lessor shall not unreasonably withhold the granting of its consent or approval.

36. BROKERS.

(a) The brokers involved in this transaction are J.R. Parrish, Inc. as "listing broker" and Marcus & Millichap, as "cooperating broker," each licensed real estate broker(s). A "cooperating broker" is defined as any broker other than the listing broker entitled to a share of any commission arising under this Lease. Upon execution of this Lease by both parties and following expiration and waiver of the due diligence provisions set forth in Section 3.5 hereof, Lessor shall pay to said brokers a fee as set forth in a separate agreement between Lessor and said broker(s).

(b) Lessee and Lessor each represent and warrant to the other that neither has had any dealings with any person, firm, broker or finder (other than the person(s), if any, whose names are set forth in Section 36(a), above) in connection with the

negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and no other broker or other person, firm or entity is entitled to any commission or finder's fee in connection with said transaction and Lessee and Lessor do each hereby indemnify and hold the other harmless from and against any costs, expenses, attorneys' fees or liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying party.

37. QUIET POSSESSION.

Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

38. OPTIONS TO EXTEND.

(a) Lessee shall have the option to extend the term of this Lease (each an "Option") for three (3) additional periods of five (5) years each (each an "Option Period") commencing on the Expiration Date, as may be extended by an Option Period, upon the following terms and conditions:

(1) That Lessee is not in default under any of the terms, covenants, conditions or provisions of this Lease either at the time Lessee exercises the Option or as of the expiration date, as may be extended by an Option Period;

(2) That Lessee shall not have assigned its interest under this Lease nor sublet more than fifty percent (50%) of the Premises; and

(3) That Lessee shall have notified Lessor of Lessee's election to exercise such Option in the manner provided in Section 22 not more than twelve (12) months nor less than nine (9) months prior to the then current Expiration Date.

Unless all of the above conditions precedent have been satisfied, Lessee's exercise of the Option shall be of no force or effect and the Option shall lapse. If all of the above conditions precedent are satisfied, then the Lease Term shall automatically be extended for the Option Period and all of the terms, conditions and provisions of this Lease shall continue in full force and effect throughout the Option Period, except that the Base Rent to be paid by Lessee for the Option Period shall be adjusted as provided below.

(b) The Base Rent for the Option Periods shall be as

follows:

(1) For the first Option Period, the Base Rent shall be an amount equal to ninety-five percent (95%) of the fair market rental value of the Premises, but in no event (A) less than seventy-six cents (\$0.76) per rentable square foot, or (B) greater than eighty-five and one-half cents (\$0.855) per rentable square foot. Such Base Rent shall be increased as of the commencement of the thirty-first (31st) month of the first Option Period by twelve and one-half percent (12.5%) over the Base Rent payable for the immediately preceding month.

(2) For the second and third Option Periods, the Base Rent shall be increased by twelve and one-half percent (12.5%) over the Base Rent payable for the immediately preceding period, and shall be increased as of the commencement of the thirty-first (31st) month of the second and third Option Periods, as applicable, by twelve and one-half percent (12.5%) over the Base Rent payable for the immediately preceding month.

(c) Fair Market Value. The fair market rental value of the Premises shall be determined as set forth in Rider 1 attached hereto, and in no event shall the rental for any Option Period be less than the total of rent and rental adjustments payable in the last month of the Lease Term or the then current Option Period, as the case may be.

(d) Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee. The options, if any, herein granted to Lessee are not assignable separate and apart from this Lease.

39. RIGHT OF FIRST REFUSAL.

39.1. LESSEE'S RIGHT OF FIRST REFUSAL. In the event Lessor receives a Bona Fide Offer (as that term is hereinafter defined) for the purchase of all of Lessor's right, title and interest in the Premises, other than pursuant to a Permitted Excluded Transfer (as that term is hereinafter defined), and provided Lessee shall be in actual physical occupancy of not less than fifty percent (50%) of the rentable square footage of the Premises and that no Event of Default shall then exist under this Lease, Lessor shall, by notice to Lessee, offer Lessee the right to purchase all of Lessor's right, title and interest in the Premises on the same terms and conditions as contained in the Bona Fide Offer, as amended by Section 39.4 (the "First Refusal Offer"). Lessee, by notice to Lessor given within five (5) business days of the delivery of the

First Refusal Offer, shall have the right to accept the First Refusal Offer, whereupon the parties shall enter into negotiations for the consummation of the purchase and sale transaction on the terms of the First Refusal Offer. If Lessee does not timely accept the First Refusal Offer, Lessor may proceed to negotiate with the offeror of the Bona Fide Offer, or any other person, for the sale of the Premises and Lessor's interest therein free of Lessee's rights under this Section 39.1., and to consummate a sale on terms and conditions materially no more favorable to Lessor than the terms contained in the Bona Fide Offer, subject to the one hundred eighty (180) day closing requirement provided in the next sentence. If Lessee timely accepts the First Refusal Offer, and following good faith negotiations, a definitive and binding purchase and sale agreement is not entered into between the parties within thirty (30) days after Lessee's acceptance of the First Refusal Offer (such period being referred to as "Lessee's Exclusivity Period"), Lessor shall have the right to terminate negotiations with Lessee and shall be free to enter into negotiations with the offeror of the Bona Fide Offer, or any other person, free of Lessee's rights under this Section 39.1, and to consummate a sale of all of Lessor's right, title and interest in the Premises on terms and conditions materially no more favorable to Lessor than the terms contained in the Bona Fide Offer; provided that the closing of any definitive and binding purchase and sale agreement entered into by Lessor with such third party shall close no later than one hundred and eighty (180) days following the expiration of Lessee's Exclusivity Period. Should Lessor fail to close such transaction within said one hundred eighty (180) day period, Lessor shall not sell the Premises and its interest therein without again complying with the provisions of this Section 39.1.

39.2. PERMITTED EXCLUDED TRANSFERS. There shall be excepted from the transactions subject to Section 39.1 of this Lease the following transfers, which shall be deemed Permitted Excluded Transfers:

(i) Any transfer of the Premises which is a part of a statutory reorganization of Lessor (whether by means of a sale of assets, stock, merger or consolidation), including if the Premises is transferred to a business enterprise controlling, controlled by, or under common control with, Lessor.

(ii) Any transfer of the Premises as part of a sale or transfer of one or more other improved real property holdings of Lessor in the United States, except if, upon being informed by Lessor of Lessee's right of first refusal hereunder the proposed transferee advises Lessor that it is willing to proceed with the proposed transaction with the exclusion of the Premises from said transaction.

(iii) Any transfer of the Premises to a lender holding a mortgage or deed of trust encumbering the Premises pursuant to a foreclosure or deed in lieu of foreclosure.

39.3. BONA FIDE OFFER/REIMBURSEMENT OF DUE DILIGENCE EXPENSES. The term "Bona Fide Offer" as used in this Section 39 shall mean a letter of intent or similar written expression of interest from a third party outlining the terms and conditions on which such person would be willing to purchase all of the right, title and interest of Lessor in the Premises. If Lessee accepts the First Refusal Offer in accordance with Section 39.1 of this Lease and the sale of the Premises to Lessee is consummated in accordance therewith, Lessee shall be obligated to reimburse the offeror of the Bona Fide Offer up to \$50,000 in due diligence costs (including attorneys' and other professionals' fees) actually incurred by such person (as evidenced by supporting documentation reasonably acceptable to Lessee) in connection with the presentation of the Bona Fide Offer and the investigation of the Premises and Lessor's title thereto; provided that, as a condition to such reimbursement, the offeror provides to Lessee copies of any non-privileged reports and information generated by such due diligence investigation.

39.4. MODIFICATION OF BONA FIDE OFFER. Notwithstanding anything to the contrary in the Bona Fide Offer received by Lessor, the Bona Fide Offer shall be deemed amended to provide for the following terms and conditions and the same shall be included as part of any agreement whereby Lessor shall sell all of its right, title and interest in the Premises to Lessee (and the same shall be deemed incorporated into the First Refusal Offer):

(i) The First Refusal Offer shall provide for a due diligence period applicable to Lessee's investigation of the Premises of not more than thirty (30) days;

(ii) The First Refusal Offer shall not contain any representations or warranties regarding this Lease or compliance with laws by Lessee; and

(iii) The First Refusal Offer shall not contain any representations or warranties regarding the condition or good working order of any improvements, Building Systems or other facilities being maintained by Lessee or that have been substantially altered by Lessee.

39.5. PERSONAL TO LESSEE. The right granted to Lessee under this Section 39 is personal to the named tenant under this Lease and shall not inure to the benefit of any assignee, subtenant or successor in interest to Lessee (other than an Affiliate of Lessee) under this Lease.

39.6. TERMINATION OF SECTION 16.2. Subject to, and without limiting the rights of the parties to agree on, any allocation of liabilities and obligations (including, without limitation, liabilities and obligations relating to Hazardous Materials and Releases thereof) in any purchase and sale agreement to be entered into between Lessor and Lessee, the consummation of the sale of the

Premises to Lessee pursuant to the right granted Lessee under this Section 39 shall automatically be deemed a transfer under Section 16.2.1 of this Lease to a person that satisfies the creditworthiness and financial capability to perform requirements thereof and, notwithstanding anything to the contrary in this Lease, Lessor shall be released from any liability under this Lease (including, without limitation, Section 16.2).

40. SECURITY MEASURES.

Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises. Lessee assumes all responsibility for the protection of Lessee, its employees, agents and invitees and the property of Lessee and of Lessee's employees, agents and invitees from acts of third parties. In addition, Lessee agrees, at its sole cost, to cause all security measures affecting the Premises to be in compliance with all applicable laws.

41. EASEMENTS.

Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a default of this Lease by Lessee without the need for further notice to Lessee.

42. AUTHORITY.

If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

43. CONFLICT.

Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

44. OFFER.

Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lease. This Lease shall become binding upon Lessor and Lessee only when

fully executed and delivered by Lessor and Lessee.

45. HEADINGS/DEFINED TERMS.

45.1. HEADINGS. The subject headings of the sections of this Lease are provided for convenience only and shall not affect the construction or interpretation of any of the provisions thereof.

45.2. DEFINED TERMS. The meanings of the following terms when used in this Lease shall be determined as follows:

Additional Allowance	Section 7.5
Additional Permitted Expenditures	Section 7.5
Affiliate of Lessee	Section 12.1(iv)
Affiliate of Lessor	Section 7.3.2(c)
Alterations	Section 7.4(b)
Arbitration Notice	Rider 2
Base Rent	Section 4.1
Bona Fide Offer	Section 39.3
Bonus Rent	Section 12.4
Building Systems	Section 3.3.1
Certified Accountant	Section 4.3
Cleanup Actions	Section 7.3.3(a)(ii)
Closure Permits	Section 7.3.8
Commencement Date	Section 3.1.1
Condemnation	Section 14
Delivery Date	Section 3.1
Environmental Conditions	Section 16.2.1
Environmental Liabilities	Section 7.3.3(a)
Event of Default	Section 13
Expiration Date	Section 3.1
Facilities Manager's Certificate	Section 3.5.4
First Refusal Offer	Section 39.1
Force Majeure	Section 3.1.1
Hazardous Materials	Section 7.3.11(a)
Hazardous Materials Laws	Section 7.3.11(b)
Immediate Vicinity	Section 16.2.1
Indemnification Period	Section 7.3.11(c)
Initial Allowance	Section 7.5
Initial Permitted Expenditures	Section 7.5
Inspection	Section 7.3.9(a)
Insured Loss	Section 9.1(c)
Interest Rate	Section 18
Lease Term	Section 3.1
Lessee Indemnities	Section 7.3.2(a)
Lessee's Exclusivity Period	Section 39.1
Leasehold Improvements	Section 8.2.1
Lessor Indemnities	Section 7.3.3(a)
Lessor's Indemnification Costs	Section 16.2.1
Lessor's Mortgagee	Section 29.1(b)
Management Fee	Section 4.2(a)(iii)
Market Rent	Rider 1
Operating Expenses	Section 4.2(a)

Option	Section 38(a)
Option Period	Section 38(a)
Other Cleanup Actions	Section 7.3.2(a)(ii)
Other Environmental Liabilities	Section 7.3.2(a)
Permit to Enter	Section 3.5.1
Permitted Excluded Transfer	Section 39.1
Premises Partial Damage	Section 9.1(a)
Premises Total Destruction	Section 9.1(b)
Real Property Taxes	Section 4.2(b)
Release(s)	Section 7.3.11(d)
Replacement Cost	Section 9.1(d)
Scheduled Commencement Date	Section 3
Security Deposit	Section 5
Termination Inspection	Section 7.3.10
Utility Installation	Section 7.4(a)

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

LESSOR	LESSEE
SHUWA INVESTMENTS CORPORATION, a California corporation	READ-RITE CORPORATION, a Delaware corporation
By: /s/ [ILLEGIBLE] -----	By: /s/ [ILLEGIBLE] -----
Its: Vice Chairman	Its: Secretary

ADDRESS FOR LESSOR NOTICES AND FOR PAYMENT OF RENT:	LESSEE'S ADDRESS FOR NOTICE
Shuwa Investments Corporation 150 Spear Street San Francisco, California 94105	Read-Rite Corporation 345 Los Coches Street Milpitas, California 95035

Rider 1
Fair Market Value

(a) Good Faith Negotiations. Within thirty (30) days of Lessee's exercise of the Option, the parties shall meet at a mutually agreeable time and place to present such evidence as either party desires in an effort to mutually and in good faith attempt to arrive at a mutually agreeable fair market rent for the Premises effective for the Option Term (the "Market Rent"). If the parties are unable within such thirty (30) day period to arrive at a Market Rent, Lessor may, at any time after such impasse has been reached, deliver to Lessee a statement ("Lessor's Statement") setting forth Lessor's determination of the Market Rent. If Lessor does not deliver Lessor's Statement to Lessee by six (6) months prior to the Option Period commencement, the sole right of Lessee shall be to elect, by written notice ("Appraisal Notice") to Lessor, to have the issue of the Market Rent determined by appraisal pursuant to the procedures set forth in this Rider.

(b) Lessee's Election. If a Lessor's Statement is delivered to Lessee, Lessee shall have the right, within fifteen (15) days after receipt of Lessor's Statement, to elect either of the following:

- (i) To accept in writing the Market Rent set forth in Lessor's Statement; or
- (ii) To give an Appraisal Notice to Lessor.

If Lessee does not timely elect either of the alternatives provided above, Lessee shall be deemed to have elected to have the issue of Market Rent determined by appraisal pursuant to the following procedure, and the award or decision rendered in such proceeding shall be final and binding on the parties.

(c) Two Appraisers. In the event that Lessee elects or is deemed to have elected the appraisal procedure, within fifteen (15) days after receipt of the Appraisal Notice, each party, at its own cost and by giving notice to the other party, shall appoint a real estate appraiser, with a membership in the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers and at least five (5) years' full-time commercial appraisal experience in the Silicon Valley, to appraise and determine the Market Rent. If, in the time provided, only one (1) party shall give notice of appointment of an appraiser, the single appraiser appointed shall determine the Market Rent. If two (2) appraisers are appointed by the parties, the two (2) appraisers shall independently, and without consultation, prepare a written appraisal of the Market Rent, consistent with the criteria provided in subsection (g) below, within thirty (30) days. Each appraiser shall seal its respective appraisal after completion. After both appraisals are completed, the resulting estimates of the Market Rent shall be opened and compared. If the value of the appraisals differ by no

more than ten percent (10%) of the value of the higher appraisal, then the Market Rent shall be the average of the two (2) appraisals.

(d) Three Appraisers. If the values of the appraisals differ by more than ten percent (10%) of the value of the higher appraisal, the two (2) appraisers shall designate a third appraiser meeting the qualifications set forth in subsection (c), above. If the two (2) appraisers have not agreed on the third appraiser after ten (10) days, either Lessor or Lessee, by giving ten (10) days notice to the other party, may apply to the then Presiding Judge of the Superior Court of Alameda County for the selection of a third appraiser who meets the qualifications set forth in subsection (c) above. The third appraiser, however selected, shall be a person who has not previously acted in any capacity for either party. The role of the third appraiser shall be to select, within ten (10) days after submission to him or her of the appraisals of the two other appraisals, which of the two appraisals most closely approximates the third appraiser's determination, consistent with the criteria of subsection (g) hereof, of Market Rent. The third appraiser shall have no right to propose a middle ground or any modification of either of the two other appraisals. The determination of Market Rent chosen by the third appraiser shall be final and binding upon the parties.

(e) Delay. If the determination of the Market Rent is delayed beyond the Option Period commencement, Lessee shall pay Base Rent in the amount in effect immediately preceding the Option Period commencement until the first day of the month following the determination of the Market Rent. On the first day of the month following the determination of the Market Rent, there shall be an adjustment made to the Base Rent payment then due for the difference between the amount of Base Rent Lessee has paid to Lessor since the Option Period commencement and the amount that Lessee would have paid if the Base Rent as adjusted pursuant to this subsection had been in effect as of the Option Period commencement.

(f) Costs. Each party shall pay the fees and expenses of their own appraiser, and fifty percent (50%) of the fees and expenses of the third appraiser.

(g) Criteria. The appraisers shall determine the Market Rent using the "market comparison approach," for renewal leases (to the extent such information is available), with the relevant market being that for similar space in the vicinity of the Premises as of the commencement of the Option Period, taking into consideration location, condition and improvements to the space. The appraisers shall use their best efforts to fairly and reasonably appraise and determine the Market Rent in accordance with the terms of the Lease and this Rider, and shall not act as advocates for either Lessor or Lessee.

(h) Limitation on Appraisers' Authority. The appraisers shall have no power to modify the provisions of the Lease or this Rider, and their sole function shall be to determine the Market Rent in accordance with this Rider.

Rider 2
Arbitration Procedures for
Financial Creditworthiness of
Transferee

Mindful of the high cost of litigation, not only in dollars but time and energy as well, the parties intend to and do hereby establish a quick, final and binding out of court dispute resolution procedure to be followed in the unlikely event controversy should arise under Section 16.2 of the Lease. Accordingly, the parties do hereby covenant and agree as follows:

(a) If Lessee disapproves or is deemed to have disapproved the creditworthiness and financial capability to perform of any transferee of Lessor in accordance with Section 16.2.1 of the Lease, Lessor may, at any time after such disapproval, deliver to Lessee a written notice (the "Arbitration Notice") to have the issue determined by alternative dispute resolution in accordance with this Rider. The issue to be submitted to arbitration shall be whether, in the exercise of reasonable judgment, the transferee or grantee of Lessor is reputable, and has a net worth, credit rating and ability to maintain sufficient financial resources to satisfy Lessor's Indemnification Costs (as that term is defined in Section 16.2.1 of the Lease) for the remainder of the initial Lease Term, and is able to demonstrate to the reasonable satisfaction of the arbitrator that in the course of its business it will maintain sufficient financial resources to satisfy Lessor's Indemnification Costs for the remainder of the initial Lease Term (provided, however, that the foregoing demonstration shall not necessarily imply any obligation of the transferee to post any security for the satisfaction of Lessor's Indemnification Costs), based on the criteria set forth in Section 16.2.1 of the Lease (the "Dispute"). If the arbitrator determines that Lessor is the prevailing party, Lessor shall be released from any liability under the Lease in accordance with Section 16.1 of the Lease (and without application of Section 16.2 of the Lease).

(b) If Lessor has served Lessee with an Arbitration Notice, the Dispute shall be settled by final and binding arbitration administered by and in accordance with the then existing Rules of Practice and Procedure of Judicial Arbitration and Mediation Services, Inc. (JAMS), at a location in San Francisco, California determined by the arbitrator. The award of the arbitrator shall be final and binding upon the parties without appeal or review. Application may be had by any party to any court of general jurisdiction for entry and enforcement of judgment based on said award.

(c) The arbitrator shall determine which is the prevailing party and shall include in the award that party's reasonable attorney fees and costs.

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE ("Second Amendment") is dated for reference purposes only as of May 28, 2002 and is entered into between OSGOOD ROAD VEF V, LLC, a Delaware limited liability company ("Landlord"), and READ-RITE CORPORATION, a Delaware Corporation ("Tenant").

Recitals

- A. Landlord's predecessor, Shuwa Investments Corporation ("Shuwa"), a California corporation and Tenant entered into that Single Tenant Industrial Lease Agreement dated August 24, 1992, with respect to premises know as 44100 Osgood Road, Fremont, California (the "Lease Agreement"). The Lease Agreement was amended by the Supplement to Single Industrial Lease Agreement (the "Supplement") dated April 14, 2000. On October 10, 2001 Landlord acquired title of the Premises from Shuwa and entered into the Lease Amendment dated October 10, 2001 (the "First Amendment"). The Lease Agreement, Supplement and First Amendment are collectively the "Lease". Words defined in the Lease Agreement have the same meanings in this Amendment.
- B. Tenant and Landlord wish to extend the term of the Lease, pursuant to Section 38 of the Lease Agreement, as set forth in this Amendment.

NOW, THEREFORE, in consideration of the covenants set forth herein, Landlord and Tenant hereby agree as follows:

1. Term. The term of the Lease is hereby extended for a period of five years (5) years, commencing on March 1, 2003 and ending on February 28, 2008 (the Extended Period").
2. Monthly Rent. Effective as of March 1, 2003, the monthly Base Rent shall be eighty-five and one-half cents (\$0.855) per rentable square foot for the first 30 months of the Extended Period and such Base Rent shall be increased at the commencement of the 31st month of the Extended Period by 12.5% to \$0.962 per rentable square foot effective from the thirty-first (31st) month of the Extended Period through the remainder of the Extended Period.
3. Confirmation of Lease. Except as amended hereby, the Lease is unmodified, and as amended hereby, the Lease remains in full force and effect.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first above written.

OSGOOD ROAD VEF V, LLC,
a Delaware limited liability company

By: VALUE ENHANCEMENT FUND V, L.P.,
a Georgia limited partnership, Member

By: LENDLEASE REAL ESTATE
INVESTMENTS INC., a Delaware corporation,
Manager

By: /s/ [ILLEGIBLE]

Its: PRINCIPAL

READ-RITE CORPORATION, a Delaware
corporation

By: /s/ [ILLEGIBLE]

Its: Sr. VP & CFO

WESTERN DIGITAL CORPORATION
SUBSIDIARIES OF THE COMPANY

Name of Entity	State or Other Jurisdiction of Incorporation or Organization
Pacifica Insurance Corporation	Hawaii
Read-Rite International	Cayman Islands
Read-Rite (Malaysia) Sdn. Bhd.	Malaysia
Western Digital (BangPa-In) Company, Limited	Thailand
Western Digital Canada Corporation	Ontario, Canada
Western Digital (Deutschland) GmbH.	Germany
Western Digital (France) SARL	France
Western Digital (Fremont), Inc.	Delaware
Western Digital Hong Kong Limited	Hong Kong
Western Digital Ireland, Ltd.	Cayman Islands
Western Digital (I.S.) Limited	Ireland
Western Digital Japan Ltd.	Japan
Western Digital Korea, Ltd.	Republic of Korea
Western Digital Latin America, Inc.	Delaware
Western Digital (Malaysia) Sdn. Bhd.	Malaysia
Western Digital Netherlands B.V.	The Netherlands
Western Digital (S.E. Asia) Pte Ltd	Singapore
Western Digital (Singapore) Pte Ltd	Singapore
Western Digital Taiwan Co., Ltd.	Taiwan
Western Digital Technologies, Inc.	Delaware
Western Digital (Thailand) Company Limited	Thailand
Western Digital (UK) Limited	England
Western Digital Ventures, Inc.	Delaware

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Western Digital Corporation:

We consent to the incorporation by reference in the registration statements (Nos. 2-76179, 2-97365, 33-9853, 33-57953, 33-60166, 33-60168, 33-51725, 333-20359, 333-31487, 333-41423, 333-42991, 333-70413, 333-95499, 333-36332, 333-56738, 33-24585, 33-33365, 33-56128, 33-24595 and 333-107227) on Form S-8 of Western Digital Corporation and in the registration statements (Nos. 33-51695, 333-52463, 333-70785, 333-36350 and 333-49250) on Form S-3 of Western Digital Corporation of our report dated July 24, 2003, except as to the fourth paragraph of Note 3 and the sixth paragraph of Note 5, which are as of September 19, 2003, related to the consolidated balance sheets of Western Digital Corporation and subsidiaries as of June 27, 2003 and June 28, 2002 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended June 27, 2003, and the related financial statement schedule, which report appears in the June 27, 2003 annual report on Form 10-K of Western Digital Corporation.

/s/ KPMG LLP

Orange County, California
September 22, 2003

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

I, Matthew E. Massengill, certify that:

1. I have reviewed this annual report on Form 10-K 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) 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 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 function):
 - (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: September 22, 2003

/s/ Matthew E. Massengill

Matthew E. Massengill
Chief Executive Officer

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

I, D. Scott Mercer, certify that:

1. I have reviewed this annual report on Form 10-K 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
 - (c) 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 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 function):
 - (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: September 22, 2003

/s/ Scott Mercer

D. Scott Mercer
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, nor shall it be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the period ended June 27, 2003 (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: September 22, 2003

/s/ Matthew E. Massengill

Matthew E. Massengill
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Western Digital Corporation and will be retained by Western Digital Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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, nor shall it be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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, to his knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the period ended June 27, 2003 (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: September 22, 2003

/s/ Scott Mercer

D. Scott Mercer
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Western Digital Corporation and will be retained by Western Digital Corporation and furnished to the Securities and Exchange Commission or its staff upon request.